



雲南水務投資股份有限公司

YUNNAN WATER INVESTMENT CO., LIMITED*

(a joint stock limited liability company incorporated in the People's Republic of China)
Stock Code : 06839

Global Offering



Sole Global Coordinator, Sole Sponsor,
Sole Bookrunner and Sole Lead Manager

CMS  **招商证券**

IMPORTANT

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



YUNNAN WATER

雲南水務投資股份有限公司 Yunnan Water Investment Co., Limited*

(a joint stock limited liability company incorporated in the People's Republic of China)

GLOBAL OFFERING

Number of Offer Shares under : 287,521,000 H Shares (subject to the
the Global Offering Over-allotment Option)
Number of Hong Kong Offer Shares : 28,754,000 H Shares (subject to adjustment)
Number of International Offer Shares : 258,767,000 H Shares (subject to adjustment
and the Over-allotment Option)
Maximum Offer Price : HK\$5.80 per H Share, plus brokerage of
1.0%, SFC transaction levy of 0.0027% and
Stock Exchange trading fee of 0.005%
(payable in full on application in Hong Kong
dollars and subject to refund)
Nominal value : RMB1.00 per H Share
Stock code : 06839

Sole Global Coordinator, Sole Sponsor, Sole Bookrunner and Sole Lead Manager



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

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

The Offer Price is expected to be fixed by agreement between the Sole Global Coordinator and us on the Price Determination Date. The Price Determination Date is expected to be on or around Monday, 18 May 2015 and, in any event, not later than Tuesday, 26 May 2015. The Offer Price will not be more than HK\$5.80 and is currently expected to be not less than HK\$5.00. Investors applying for Hong Kong Offer Shares must pay, on application, the maximum Offer Price of HK\$5.80 for each Offer Share together with brokerage of 1.0%, SFC transaction levy of 0.0027% and Stock Exchange trading fee of 0.005%.

If, for any reason, the Sole Global Coordinator and we are unable to reach an agreement on the Offer Price on or before Tuesday, 26 May 2015, the Global Offering will not proceed and will lapse immediately.

The Sole Global Coordinator may, with our consent, reduce the number of Offer Shares and/or the indicative Offer Price range stated in this prospectus (which is HK\$5.00 to HK\$5.80 per Offer Share) at any time on or prior to the morning of the last day for lodging applications under the Hong Kong Public Offering. In such case, notice of the reduction in the number of 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 Hong Kong Public Offering. Such notice will also be available at the website of the Stock Exchange at www.hkexnews.hk and our website at www.yunnanwater.cn. Further details are set out in "Structure of the Global Offering" and "How to Apply for Hong Kong Offer Shares".

We are incorporated, and substantially all of our businesses are located, in the PRC. Potential investors should be aware of the differences in the legal, economic and financial systems between the PRC and Hong Kong and should take into consideration the different market nature of the H Shares. Such differences and risk factors are set out in "Risk Factors", "Appendix III — Summary of Principal Legal and Regulatory Provisions" and "Appendix IV — Summary of Article of Association".

Prospective investors should note that the obligations of the Hong Kong Underwriter under the Hong Kong Underwriting Agreement to subscribe, and to procure subscribers for, the Hong Kong Offer Shares are subject to termination by the Sole Global Coordinator if certain events shall occur prior to 8:00 a.m. on the day on which trading in our H Shares commences on the Stock Exchange. Such grounds are set out in "Underwriting". It is important that you refer to that section for further details.

The Offer Shares have not been and will not be registered under the U.S. Securities Act or any state securities law in the United States and may not be offered, sold, pledged or transferred within the United States, except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the U.S. Securities Act. The Offer Shares are being offered and sold only outside the United States in offshore transactions in accordance with Regulation S.

* For identification purposes only

13 May 2015

EXPECTED TIMETABLE⁽¹⁾

Latest time to complete electronic applications under the HK eIPO White Form service through the designated website at www.hkeipo.hk ⁽²⁾	11:30 a.m. on Monday, 18 May 2015
Application lists open ⁽³⁾	11:45 a.m. on Monday, 18 May 2015
Latest time to complete payment of HK eIPO White Form applications by effecting internet banking transfer(s) or PPS payment transfer(s)	12:00 noon on Monday, 18 May 2015
Latest time to lodge WHITE and YELLOW Application Forms	12:00 noon on Monday, 18 May 2015
Latest time to give electronic application instructions to HKSCC ⁽⁴⁾	12:00 noon on Monday, 18 May 2015
Application lists close ⁽³⁾	12:00 noon on Monday, 18 May 2015
Expected Price Determination Date ⁽⁵⁾	Monday, 18 May 2015
Announcement of:	
• the Offer Price • the level of applications under the Hong Kong Public Offering; • the level of indications of interest in the International Offering; and • the basis of allotment of the Hong Kong Offer Shares	
to be published in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese), on the website of the Stock Exchange at www.hkexnews.hk ⁽⁶⁾ and on the website of our Company at www.yunnanwater.cn on or before	
	Tuesday, 26 May 2015
Announcement of results of allotment in the Hong Kong Public Offering (with successful applicants' identification document numbers where applicable) available through a variety of channels as described in "How to Apply for Hong Kong Offer Shares"	Tuesday, 26 May 2015
Results of allocations in the Hong Kong Public Offering will be available at www.hkeipo.hk with a "search by ID" function.	Tuesday, 26 May 2015
H Share certificates in respect of wholly or partially successful applications will be dispatched or deposited into CCASS on or before ⁽⁷⁾	Tuesday, 26 May 2015
Despatch of refund cheques (if applicable)/ HK eIPO White Form e-Auto Refund payment instruction (if applicable) in respect of wholly and partially successful applications (if applicable) or wholly or partially unsuccessful applications on or before ⁽⁷⁾⁽⁸⁾	Tuesday, 26 May 2015
Dealings in H Shares on the Stock Exchange expected to commence at 9:00 a.m. on	Wednesday, 27 May 2015

EXPECTED TIMETABLE⁽¹⁾

Notes:

- (1) All dates and times refer to Hong Kong dates and time, except otherwise stated. Details of the structure of the Global Offering, including its conditions, are set out in “Structure of the Global Offering”. If there is any change in the above expected timetable, we will issue a separate announcement in Hong Kong to be published in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese).
- (2) You will not be permitted to submit your application through the designated website at www.hkeipo.hk after 11:30 a.m. on the last day for submitting applications. If you have already submitted your application and obtained a payment reference number from the designated website prior to 11:30 a.m., you will be permitted to continue the application process (by completing payment of application monies) until 12:00 noon on the last day for submitting applications, when the application lists close.
- (3) If there is a tropical cyclone warning signal number 8 or above, or a “black” rainstorm warning in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Monday, 18 May 2015, the application lists will not open and close on that day. Please refer to “How to Apply for Hong Kong Offer Shares — Effect of Bad Weather on the Opening of the Application Lists”.
- (4) Applicants who apply for Hong Kong Offer Shares by giving **electronic application instructions** to HKSCC should refer to “How to Apply for Hong Kong Offer Shares — Applying by Giving Electronic Application Instructions to HKSCC via CCASS”.
- (5) The Price Determination Date is expected to be on or about Monday, 18 May 2015, and in any event on or before Tuesday, 26 May 2015. If, for any reason, the Offer Price is not agreed on or before Tuesday, 26 May 2015, the Global Offering will not proceed and will lapse.
- (6) The announcement will be available for viewing on the Stock Exchange’s website at www.hkexnews.hk.
- (7) Applicants who have applied on **WHITE** Application Forms for 1,000,000 Hong Kong Offer Shares or more and have provided all required information may collect refund cheques (if applicable) and H Share certificates (if applicable) in person from the H Share Registrar, Tricor Investor Services Limited, from 9:00 a.m. to 1:00 p.m. on Tuesday, 26 May 2015. Identification and (where applicable) authorization documents acceptable to the H Share Registrar must be produced at the time of collection.

Applicants who have applied on **YELLOW** Application Forms for 1,000,000 Hong Kong Offer Shares or more may collect their refund cheques (if applicable) in person but may not collect in person their H Share certificates which will be deposited into CCASS for the credit of their designated CCASS Participants’ stock accounts or CCASS Investor Participant stock accounts, as appropriate. The procedures for collection of refund cheques for **YELLOW** Application Form applicants are the same as those for **WHITE** Application Form applicants.

Applicants who have applied through **HK eIPO White Form** service by paying the application monies through a single bank account may have e-Auto Refund payment instructions (if any) dispatched to their application payment bank account on Tuesday, 26 May 2015. Applicants who have applied through **HK eIPO White Form** service by paying the application monies through multiple bank accounts may have refund cheque(s) sent to the address specified in their application instructions through **HK eIPO White Form** service on Tuesday, 26 May 2015, by ordinary post and at their own risk.

Uncollected H Share certificates (if applicable) and refund cheques (if applicable) will be dispatched by ordinary post (at the applicants’ own risk) to the addresses specified in the relevant Application Forms. Further information is set out in “How to Apply for Hong Kong Offer Shares”.

- (8) Refund cheques will be issued (where applicable) and e-Auto Refund payment instruments will be dispatched (where applicable) in respect of wholly or partially unsuccessful applications and in respect of successful applications if the final Offer Price is less than the price payable on application.

EXPECTED TIMETABLE⁽¹⁾

The H Share certificates will only become valid certificates of title if the Global Offering has become unconditional in all respects and neither of the Hong Kong Underwriting Agreement nor the International Underwriting Agreement is terminated in accordance with its respective terms prior to 8:00 a.m., on Wednesday, 27 May 2015. Investors who trade in the H Shares on the basis of publicly available allocation details prior to the receipt of the H Share certificates or prior to the H Share certificates becoming valid certificates of title do so entirely at their own risk.

You should read carefully “Underwriting”, “Structure of the Global Offering” and “How to Apply for Hong Kong Offer Shares” for details relating to the structure and conditions of the Global Offering, how to apply for Hong Kong Offer Shares and the expected timetable including, *inter alia*, applicable conditions, the effect of bad weather, and the despatch of refund cheques and Share certificates.

We will publish an announcement in case there is any change in the expected timetable of the Hong Kong Public Offering as described above.

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IMPORTANT NOTICE TO PROSPECTIVE INVESTORS

This prospectus is issued by Yunnan Water Investment Co., Limited solely in connection with the Hong Kong Public Offering and the Hong Kong Offer Shares and does not constitute an offer to sell, or a solicitation of an offer to subscribe for or buy, any security other than the Hong Kong Offer Shares. This prospectus may not be used for the purpose of, and does not constitute, an offer to sell, or a solicitation of an offer to subscribe for or buy, any security 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. The distribution of this prospectus and the offering and sale of the Offer Shares in other jurisdictions are subject to restrictions and may not occur except as permitted under the applicable securities laws of such jurisdictions.

You should rely only on the information contained in this prospectus and the Application Forms to make your investment decision. We have not authorised anyone to provide you with information different from what is contained in this prospectus. Any information or representation not made in this prospectus must not be relied on by you as having been authorised by us, the Sole Global Coordinator, the Sole Sponsor, the Sole Bookrunner, the Sole Lead Manager, the Underwriter, any of our or their respective directors, officers or representatives or any other person or party involved in the Global Offering.

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SUMMARY

This summary aims to give you an overview of the information contained in this prospectus. As this is a summary, it does not contain all the information that may be important to you. You should read the entire prospectus before you decide to invest in the Offer Shares. There are risks associated with an investment in the Offer Shares. Some of the particular risks associated with an investment in the Offer Shares are set out in “Risk Factors”. You should read that section carefully before you decide to invest in the Offer Shares.

OVERVIEW

We are one of the leading integrated service providers in the municipal wastewater treatment and water supply industries in Yunnan province, the PRC. According to the EY Report, in 2013, we ranked first in terms of both the number of our wastewater treatment facilities and the number of water supply facilities in Yunnan. In 2013, we had a market share of 26.2% and 6.1% in terms of the designed daily capacity of our wastewater treatment and water supply facilities in Yunnan, respectively.

Our business comprises four main segments, namely wastewater treatment, water supply, construction and equipment sales and others, which comprises O&M wastewater treatment, water supply and municipal waste disposal projects. These four segments cover the full spectrum of the water industry, ranging from raw water supply, tap water supply and wastewater treatment to engineering services, equipment sales and system integration. As at the Latest Practicable Date, we had a total of 92 projects⁽¹⁾, 63 of which were under concession arrangements. The terms of our concession arrangements range from 18 years to 30 years. We engage in project design, investment, construction, operation and maintenance, provision of turnkey solutions and system integration services of core technologies. For the years ended 31 December 2012, 2013 and 2014, (i) our wastewater treatment segment accounted for 56.3%, 47.0% and 34.9% of our revenue for the respective years; (ii) our water supply segment accounted for 26.6%, 25.5% and 19.6% of our revenue for the respective years; (iii) our construction and equipment sales segment accounted for 16.7%, 26.9% and 42.7% of our revenue for the respective years; and (iv) our others segment accounted for 0.4%, 0.6% and 2.8% of our revenue for the respective years.

We first established our foothold in Yunnan and have gradually expanded our presence into Xinjiang, Shandong, Jiangsu and Guizhou since 2013. In 2012, 2013 and 2014, we derived approximately 100%, 82.9% and 74.2% of our revenue, respectively, from our subsidiaries registered in Yunnan, and approximately nil, 17.1% and 25.8% of our revenue, respectively, from our subsidiaries registered in other parts of the PRC.

Note:

- (1) In this prospectus, unless the context otherwise requires, the information and data of our concession projects as at the Latest Practicable Date have given effect to the disposal of the Gantong Water Supply Plant as described in “Summary — Recent Developments” and “History, Reorganisation and Corporate Structure”.

SUMMARY

We principally adopt the BOT, TOT, BOO, TOO, BT, EPC and O&M project models in our business. For our BOT, TOT, BOO and TOO projects, we enter into concession agreements with local governments which typically last 30 years. No such agreements are entered into for our BT, EPC and O&M projects. See “Business — Overview” on page 151 of this prospectus and “Business — Concession Projects — Project Models” on page 166 of this prospectus for key features of our project models and a comparison of our accounting treatment between BOT/TOT projects and BOO/TOO projects, respectively.

As at 31 December 2012, 2013 and 2014, the average utilisation rate of our wastewater treatment facilities was 42.3%, 46.1% and 64.3% and the average utilisation rate of our water supply facilities was 63.0%, 72.4% and 77.3%, respectively. Our financial returns for a majority of our wastewater treatment facilities are not affected by our utilisation rates as we charge tariffs based on the guaranteed minimum volumes as stipulated under the concession agreements. See “Business — Concession Projects — Details of our Concession Projects” on page 189 of this prospectus.

We also engage in equipment sales business in Yunnan and Guizhou. We produce, sell and install equipment for wastewater treatment, water supply and waste disposal facilities. Our main customers are the contractors undertaking the construction work for our wastewater treatment and tap water supply projects as well as contractors undertaking construction work for third parties. See “Business — Construction and Equipment Sales — EPC and Equipment Sales — Equipment Sales” on page 225 of this prospectus.

OUR COMPETITIVE STRENGTHS

We believe that our success and potential for future growth are attributable to the following competitive strengths:

- We are one of the leading integrated service providers in the municipal wastewater treatment and water supply industries in Yunnan, and one of the core investment and operation platforms for the Yunnan provincial government in the wastewater treatment and water supply segments.
- We possess a strong track record of providing a wide range of services in Yunnan and the ability to create strong synergies among our business segments.
- Our Controlling Shareholders base comprises both state-owned and privately-owned enterprises which we believe can enhance our ability to expand our business.
- We are able to benefit from the accelerated pace of the urbanisation in the PRC, and the PRC Government’s increasing emphasis on, and policy support for, environmental protection.
- We have a track record of successful acquisition, development, operation and financing of high quality wastewater treatment and water supply projects.
- We have an experienced management team supported by highly skilled employees with extensive industry experience and strong technical expertise.

SUMMARY

OUR STRATEGIES

Our strategies are to strengthen our foothold in Yunnan and to target favourable regions in the PRC with the aim to become one of the leading integrated service providers in the municipal wastewater treatment and water supply industries in the PRC. We aim to achieve these strategies by:

- Continuing to strengthen our industry position in Yunnan, actively expanding our businesses in other areas in the PRC where we have competitive advantages and looking for opportunities to expand into overseas markets.
- Continuing to seek acquisition opportunities.
- Enhancing our research and development capabilities.
- Developing our planned projects.

HISTORY

Our business has a relatively short operating history. We commenced operations in 2009 through the various subsidiaries and joint venture companies held by Yunnan Province Water, our largest Controlling Shareholder. When the predecessor of our Company was established in June 2011, Yunnan Province Water injected such subsidiaries and joint venture companies into our Company as a capital contribution. Our Company was established in July 2014 through conversion of our predecessor into a joint stock limited liability company. See “History, Reorganisation and Corporate Structure” on page 126 of this prospectus.

SUPPLIERS

For the years ended 31 December 2012, 2013 and 2014, purchases from our largest suppliers accounted for approximately 8.4%, 54.3% and 55.0%, respectively, of our total purchase costs. For the same periods, purchases from our five largest suppliers, whose main business is construction and installation, accounted for approximately 29.0%, 73.9% and 67.0% of our total purchase costs, respectively. We have been working with our five largest suppliers for a period ranging from one to four years. Our five largest suppliers typically offer us credit terms of up to 90 days and we usually settle our trade payables by telegraphic transfers.

For the years ended 31 December 2012, 2013 and 2014, our purchases from Beijing OriginWater, our second largest Controlling Shareholder, were RMB0.5 million, RMB71.3 million and RMB3.4 million, respectively. In 2013, our purchases from Beijing OriginWater represented 10.1% of our total purchases. We mainly purchased membrane equipment and related materials from Beijing OriginWater during the Track Record Period. The Directors confirm that the transactions with Beijing OriginWater were fair and reasonable and entered into on normal commercial terms. Except for Beijing OriginWater, all of our five largest suppliers are Independent Third Parties, and none of the Directors, their respective associates

SUMMARY

or any of our Shareholders holding more than 5% of the issued share capital of our Company as at the Latest Practicable Date, to the knowledge of our Directors, owned any interest in any of our five largest suppliers during the Track Record Period and up to the Latest Practicable Date.

CUSTOMERS AND PRICING

For the years ended 31 December 2012, 2013 and 2014, sales to our largest customers accounted for 10.6%, 37.5% and 21.5% of our revenue, respectively. For the same periods, sales to our top five customers, primarily local governments, accounted for 34.8%, 63.7% and 62.6% of our revenue, respectively. We sold non-membrane water equipment to Beijing OriginWater in 2012 in the amount of RMB42.3 million, representing 10.6% of our revenue in 2012. We did not sell equipment to Beijing OriginWater in other periods during the Track Record Period. The Directors confirm that the transactions with Beijing OriginWater were fair and reasonable and entered into on normal commercial terms. Except for Beijing OriginWater, all of our five largest customers are Independent Third Parties, and none of the Directors, their respective associates or any of our Shareholders holding more than 5% of the issued share capital of our Company as at the Latest Practicable Date, to the knowledge of our Directors, owned any interest in any of our five largest customers during the Track Record Period and up to the Latest Practicable Date.

Our wastewater treatment and water supply tariffs are determined based on our production costs and the prevailing profit margins of similar water enterprises in the region. We have the right to increase the wastewater treatment and water supply tariffs charged by us according to the relevant concession agreements. However, the adjustment of our tap water supply tariffs are subject to government approval in accordance with PRC laws and regulations. See “Regulatory Environment — Concession in Municipal Public Utilities Projects — Pricing” on page 108 of this prospectus, “Risk Factors — Risks Relating to our Business and Industry — We may not be able to adjust the tariffs charged for our services in a timely manner to fully reflect any increase in the actual costs of our concession projects.” on page 48 of this prospectus and “Business — Concession Projects — Key Terms of Concession Agreements — Tariff and settlements” on page 184 of this prospectus.

RISK FACTORS

There are certain risks involved in our operations, some of which are beyond our control. These risks can be broadly categorised into: (i) risks relating to our business and industry; (ii) risks relating to conducting business in the PRC; and (iii) risks relating to the Global Offering. These risk factors are further described in “Risk Factors” on page 45 of this prospectus.

Set forth below are some of the major risks that may materially and adversely affect us:

- We are subject to risks associated with changes in regulations and policies for wastewater treatment and water supply services in the PRC.
- Any adverse change in the economic development, social conditions or government policies or natural conditions of Yunnan could materially and adversely affect our business, financial condition, results of operations and prospects.

SUMMARY

- We may not be able to acquire, secure, develop and execute new projects to maintain and grow our business.
- We require substantial funding for our current and future projects; any failure to obtain adequate funding or refinance our existing debt at reasonable rates, or at all, could adversely affect our financial condition and results of operations and could prevent us from fulfilling our financial obligations and business objectives.
- We may not be able to adjust the tariffs charged for our services in a timely manner to fully reflect any increase in the actual costs of our concession projects.

PROPERTIES

Set out below is an overview of the property interests in respect of our concession projects:

1. We have obtained the relevant land use right certificates/building ownership certificates, or where such certificates are absent, written confirmations from the relevant and competent government authorities confirming our right to legally use the parcels of land underlying such projects and/or the relevant buildings in accordance with PRC laws and regulations; and, where applicable, there are no legal impediments for us being granted/transferred the relevant certificates.
2. With regard to the land and buildings occupied by us for which we do not have land use right certificates/building ownership certificates, our PRC legal adviser has confirmed we have the right to legally use such parcels of land and buildings, notwithstanding the absence of the relevant land use right certificates/building ownership certificates.
3. With regard to all the written confirmations from the relevant government authorities for properties used in our concession projects as mentioned above, our PRC legal adviser has advised that such government authorities are the competent authorities to issue such confirmations.

The following table sets out details of our properties under BOO/TOO and BOT/TOT project models as at the Latest Practicable Date:

	BOO/TOO ⁽¹⁾		BOT/TOT ⁽²⁾	
	Land use right certificate	Building ownership certificate	Land use right certificate	Building ownership certificate
With certificates				
Parcels of land / number of buildings	38	58	19 ⁽³⁾	1
Total land area / GFA (sq.m.)	377,508.4	17,834.8	471,491.7	1,120.8
Without certificates				
Parcels of land / number of buildings	nil	30	24	219
Total land area / GFA (sq.m.)	nil	9,354.6	2,094,586.9	54,438.2

SUMMARY

Notes:

- (1) As advised by our PRC legal adviser, with respect to our BOO/TOO projects, we are entitled to occupy and use the land and buildings and we are responsible for obtaining the land use right certificates and the building ownership certificates pursuant to the relevant concession agreements.
- (2) As advised by our PRC legal adviser, with respect to our BOT/TOT projects, we are entitled to occupy and use the land and buildings and are not legally or contractually required to obtain the land use right certificates or the building ownership certificates.
- (3) Comprises parcels of land with respect to which the land use rights have been obtained by us or the local governments, their designees or the third-party companies controlled by the local governments (except for Ludian Water, see “Business — Properties — Properties Occupied by Us Pursuant to Concession Agreements — BOT/TOT projects — Land use right certificate” on page 260 of this prospectus).

For further information, see “Business — Properties” on page 251 of this prospectus.

NON-COMPLIANCE

The material non-compliances involving our Company and our 61 PRC subsidiaries during the Track Record Period and up to the Latest Practicable Date comprised: (i) failure to complete environmental protection acceptance formalities and obtain wastewater discharge permits by two of our subsidiaries; (ii) failure to obtain water intake permit by one of our subsidiaries; (iii) intercompany loans in contravention of the Lending General Provisions (《貸款通則》); and (iv) failure to obtain certain requisite permits or certificates during the construction of a number of our projects. As at the Latest Practicable Date, we had either rectified all of these non-compliances or obtained confirmations from the competent government authorities that the risk of us being penalised with respect to these non-compliances is remote. We have also implemented a series of internal control measures to minimise future reoccurrence of these non-compliances.

Our Directors are of the view that these non-compliance incidents will not materially and adversely affect our operations or financial condition and that the internal control measures are adequate and effective. Considering (i) the facts and circumstances surrounding the non-compliances; (ii) the fact that our Group has not been subject to any fines or penalties for the non-compliances during the Track Record Period and up to the Latest Practicable Date; (iii) the rectification measures we took; (iv) the various confirmations from the local governments and the undertakings from Yunnan Province Water and Beijing OriginWater that we have obtained; (v) the enhanced internal control measures we implemented; (vi) the training session attended by our Directors in November 2014 in relation to their obligations and duties as directors of a listed company from a Hong Kong law perspective, in particular with respect to the Listing Rules and other securities laws and regulations; and (vii) a further training session attended by our Directors, members of senior management and other employees in March 2015 with respect to applicable PRC laws and regulations regarding corporate governance, mergers and acquisitions, major approval requirements for construction and operation of

SUMMARY

wastewater treatment and water supply projects and inter-company loans, our Directors are of the view, and the Sole Sponsor concurs with the view that, our Directors, despite such non-compliance incidents, are suitable to serve as directors of a listed company and our Company is suitable for listing.

See “Business — Non-Compliance” on page 281 of this prospectus.

SHAREHOLDER INFORMATION

Immediately after the completion of the Global Offering, assuming the Over-allotment Option is not exercised, Yunnan Province Water, a wholly-owned subsidiary of YMCI, and Beijing OriginWater will hold approximately 31.57% and 24.92% of the total issued share capital of our Company, respectively. Each of YMCI, Yunnan Province Water and Beijing OriginWater has retained certain businesses which compete with, or are likely to compete with, our business, whether directly or indirectly. To avoid any competition with us, each of YMCI, Yunnan Province Water and Beijing OriginWater has entered into a Non-competition Agreement with us.

In May 2013, we entered into pre-IPO investment agreements with Finergy Development, pursuant to which Finergy Development agreed to subscribe for 17.5001% of our registered capital at an aggregated consideration of RMB400.0 million. In July 2014, we entered into pre-IPO investment agreements with Hangzhou Qingyu, Sichuan Rongchen and Yunnan Province Water, pursuant to which (i) Hangzhou Qingyu agreed to subscribe for 0.666% of our registered capital for an aggregated consideration of RMB20.0 million; (ii) Sichuan Rongchen agreed to subscribe for 0.999% of our registered capital for an aggregated consideration of RMB30.0 million; and (iii) Yunnan Province Water agreed to subscribe for 6.9933% of our registered share capital for an aggregated consideration of RMB210.0 million. See “History, Reorganisation and Corporate Structure — Pre-IPO Investments” on page 139 of this prospectus.

PROJECT FINANCING

During the Track Record Period, we funded the development costs of our concession and BT projects through internal resources, the issuance of debt instruments and bank borrowings. For the years ended 31 December 2012, 2013 and 2014, our capital expenditure, which includes expenditures on intangible assets, land use right and property, plant and equipment, were RMB103.7 million, RMB350.5 million and RMB369.7 million, respectively.

Our planned capital expenditures for the year ending 31 December 2015 are approximately RMB517.5 million. Such capital expenditures primarily relate to our investments in the construction of wastewater treatment and water supply projects. We plan to fund our future capital expenditures with our internal resources, bank borrowings, proceeds from the issuance of corporate bonds and proceeds from the Global Offering.

SUMMARY

SUMMARY HISTORICAL FINANCIAL INFORMATION

Selected Items of Consolidated Statements of Comprehensive Income

The table below sets forth selected items of our consolidated statements of comprehensive income for the periods indicated:

	For the years ended 31 December		
	2012	2013	2014
	(RMB'000)	(RMB'000)	(RMB'000)
Revenue	398,521	688,734	1,100,761
Gross profit	139,677	260,739	333,637
Operating profit	185,833	267,725	246,697
Profit before income tax	160,086	252,233	226,157
Profit for the year	126,111	200,856	187,896
Total comprehensive income for the year, net of tax	126,111	200,856	187,804
Attributable to:			
Owners of the Company	120,043	193,683	166,495
Non-controlling interests	<u>6,068</u>	<u>7,173</u>	<u>21,309</u>

For the years ended 31 December 2012, 2013 and 2014, a substantial portion of our revenue was construction revenue derived from our BOT projects during the construction phase, which amounted to RMB153.3 million, RMB273.1 million and RMB254.4 million, respectively, constituting 38.5%, 39.7% and 23.1% of our revenue during the same years, respectively. See “Risk Factors — Risks Relating to our Business and Industry — We receive payment for our BOT projects during the operational phase only, and for our BT projects, we only receive repurchase fees upon repurchase of the constructed facilities. As a result, we may not always be able to match cash inflows from our operations with our costs incurred during the construction phase of our BOT and BT projects, which may result in a liquidity gap requiring external financing” on page 57 of this prospectus and “Financial Information — Critical Accounting Policies, Estimates and Judgements — Service concession arrangements” on page 373 of this prospectus.

In addition, our profit for the year during the Track Record Period was in part attributable to government grants (see “Financial Information — Principal Income Statement Components — Other Income” on page 383 of this prospectus) and gains from the disposal of Jinghong Hoatai, a joint venture and property, plant and equipment and land use rights (see “Financial Information — Principal Income Statement Components — Other gains — net” on page 385 of this prospectus). For the years ended 31 December 2012, 2013 and 2014, (i) our government grants were RMB6.5 million, RMB67.9 million and RMB34.9 million, respectively; (ii) our gain from the disposal of Jinghong Haotai was RMB71.9 million, nil and nil, respectively; (iii) our gain from the disposal of a joint venture was nil, RMB8.6 million and nil, respectively; and (iv) our gain/(loss) from disposal of property, plant and equipment and land use rights was RMB29,000, (RMB4,000) and RMB3.3 million, respectively.

SUMMARY

Driven by our expansion strategies through organic development and acquisitions, our revenue increased from RMB398.5 million in 2012 to RMB1,100.8 million in 2014, representing a CAGR of 66.2%; our gross profit increased from RMB139.7 million in 2012 to RMB333.6 million in 2014, representing a CAGR of 54.5%; and our net profit increased from RMB126.1 million in 2012 to RMB187.9 million in 2014, representing a CAGR of 22.1%. During the Track Record Period, we acquired a number of companies and businesses. Our scale of operations were expanded within a short period of time through the consolidation of the results of operations of (i) OrginWater Technology, which engages in EPC & equipment sales; (ii) Liuku Water, which engages in water supply; (iii) the Gejiu Wastewater Treatment Plant and Mengzi Wastewater Treatment Plant, which are both owned by Honghe Water and engage in wastewater treatment; (iv) Mengla Quanyuan Water Supply Co., Ltd., which engages in water supply; (v) Guoqing Environmental, which mainly engages in equipment sales and O&M projects; (vi) Beijing Clean, which engages in construction services and municipal waste disposal projects; and (vii) Wuxi Zhongfa Water, which engages in wastewater treatment.

For the years ended 31 December 2012, 2013 and 2014, our gross profit margin was 35.0%, 37.9% and 30.3%, respectively.

See “Financial Information — Principal Income Statement Components” on page 378 of this prospectus for a table which sets out a breakdown of the revenue, gross profit and gross profit margin of our business segments during the Track Record Period.

Selected Items of Consolidated Statements of Financial Position

The table below sets forth selected items of our consolidated statements of financial position as at 31 December 2012, 2013 and 2014:

	As at 31 December		
	2012	2013	2014
	(RMB'000)	(RMB'000)	(RMB'000)
Non-current assets	1,709,725	2,233,718	3,525,728
Current assets	1,057,503	1,323,691	1,494,211
Current liabilities	798,874	950,789	1,217,670
Net current assets	258,629	372,902	276,541
Non-current liabilities	383,955	330,216	1,080,945 ⁽¹⁾
Net assets	1,584,399	2,276,404	2,721,324
Total equity	1,584,399	2,276,404	2,721,324

Note:

- (1) Our non-current liabilities increased substantially as at 31 December 2014 as compared to 31 December 2013 primarily because we issued corporate bonds in the amount of RMB400.0 million in June 2014.

SUMMARY

Selected Items of Consolidated Cash Flow Statements

The table below sets forth selected items of our consolidated statements of cash flow for the periods indicated:

	For the years ended 31 December		
	2012	2013	2014
	(RMB'000)	(RMB'000)	(RMB'000)
Net cash used in operating activities	(91,721)	(20,191)	(542,359)
Net cash used in investing activities	(11,858)	(9,587)	(303,792)
Net cash generated from financing activities	83,021	457,531	700,664
Cash and cash equivalents at end of the year	330,393	758,146	612,649

NEGATIVE OPERATING CASH FLOWS

We recorded negative net cash flows from operating activities of RMB91.7 million, RMB20.2 million and RMB542.4 million, respectively, for the years ended 31 December 2012, 2013 and 2014 mainly due to the accounting treatment for our BOT/TOT projects models. Under our BOT/TOT project models, the construction or acquisition costs of our projects are accounted for as cash flows used in operating activities. Conversely, under our BOO/TOO, BT and for EPC projects, the construction or acquisition costs of our projects are accounted for as cash flows used in investment activities. See “Financial Information — Liquidity and Capital Resources — Working Capital” on page 404 of this prospectus. In addition to the reason above, our negative net cash flows from operating activities increased substantially to RMB542.4 million in 2014 because our revenue derived from our BT projects increased substantially in 2014 and because we receive repurchase fees only upon repurchase of completed BT projects, which result in an increase in trade receivables.

TRADE RECEIVABLES TURNOVER DAYS

As at 31 December 2012, 2013 and 2014, our trade receivable turnover days were 167, 114 and 199 days, respectively. Our trade receivables turnover days increased from 167 days as at 31 December 2012 to 199 days as at 31 December 2014 primarily due to the consolidation of the results of Beijing Clean and Wuxi Zhongfa Water, which were acquired by us during the Track Record Period. See “Financial Information — Liquidity and Capital Resources — Trade and other receivables” on page 407 of this prospectus.

Our trade receivables turnover days were substantially longer than the credit periods we granted to our customers (i.e. 90 days or less) primarily because (i) our construction company customers do not settle our equipment and system integration service fees until they receive construction fees from the owners of the construction projects; (ii) we acquired Shandong Lingang Water and Beijing Clean in January 2014 and Wuxi Zhongfa Water in May 2014 and

SUMMARY

consolidated their trade receivables as at 31 December 2014 but not their revenues generated prior to the acquisitions; and (iii) trade receivables turnover days and the credit periods we granted relate to different periods of time in connection with the retention money associated with our EPC & equipment sales business. For further information, see “Financial Information — Liquidity and Capital Resources — Trade and other receivables” on page 407 of this prospectus.

FINANCIAL RATIOS

The following table sets out our financial ratios for the periods and as at the dates indicated:

	As at and for the years ended 31 December		
	2012	2013	2014
Current Ratio ⁽¹⁾	1.3	1.4	1.2
Quick Ratio ⁽²⁾	1.3	1.4	1.2
Gearing Ratio ⁽³⁾	20.3%	N/A ⁽⁹⁾	16.2%
Return on Equity ⁽⁴⁾	8.0%	8.8%	6.9%
Return on Total Assets ⁽⁵⁾	4.6%	5.6%	3.7%
Interest Coverage Ratio ⁽⁶⁾	8.5	11.8	8.2
Net Profit Margin ⁽⁷⁾	31.6%	29.2%	17.1%
Net Debt to Equity Ratio ⁽⁸⁾	25.5%	N/A ⁽⁹⁾	19.4%

Notes:

- (1) Equals current assets divided by current liabilities as at the end of the period.
- (2) Equals current assets less inventories divided by current liabilities as at the end of the period.
- (3) Equals net debt divided by the total capital at the end of the period. Net debt is calculated as total borrowings less cash and cash equivalents at the end of the period. Total capital is calculated as total equity plus net debt.
- (4) Represents profit for the year as a percentage of total equity for the same period.
- (5) Represents profit for the year as a percentage of total assets for the same period.
- (6) Equals profit for the year before finance costs—net and income tax divided by finance costs—net of the same period.
- (7) Equals profit for the year divided by our total revenue for the same period.
- (8) Equals net debt divided by total equity as at the end of the period. Net debt is calculated as total borrowings less cash and cash equivalents at the end of the period.
- (9) Not applicable as the amount of cash and cash equivalents exceeded total borrowings as at the end of the period.

SUMMARY

See “Financial Information — Financial Ratios” on page 429 of this prospectus for the explanation of the fluctuation of our financial ratios during the Track Record Period.

Net Profit Margin

Our net profit margin remained relatively stable at 31.6% in 2012 and 29.2% at 2013. In 2014, our net profit margin decreased to 17.1% primarily because our net profit decreased notwithstanding that our revenue increased substantially in 2014 as compared to 2013. Our net profit decreased in 2014 primarily because our gross profit margin decreased from 37.9% in 2013 to 30.3% in 2014 and our other income as a percentage of revenue decreased from 12.3% in 2013 to 4.5% in 2014. In addition, our administrative expenses increased substantially in 2014 as compared to 2013. See “Financial Information — Period to Period Comparison of Results of Operations — Year ended 31 December 2013 compared to year ended 31 December 2014” on page 389 of this prospectus for the reasons of the decreases in gross profit margin and other income as well as the increase in administrative expenses.

In 2015, we expect that our net profit margin may continue to decrease primarily because (i) the gross profit for our water supply segment is expected to increase at a slower rate than our cost of sales for our water supply segment, primarily reflecting the expected increase in the number of water supply projects under construction; and (ii) our other income is expected to decrease in 2015 as compared to 2014 as our government grants, which are not predictable and fluctuate from year to year, may decrease.

RECENT DEVELOPMENTS

In March 2015, we completed the disposal of the Gantong Water Supply Plant due to the uncertainty in relation to the timing of obtaining the relevant land use right certificate for the land underlying this plant. In the same month, we terminated the proposed disposal of the Mengzi Wastewater Treatment Plant because the land use right certificate for the land underlying this plant had been obtained. See “History, Reorganisation and Corporate Structure” on page 126 of this prospectus and “Relationship with our Controlling Shareholders” on page 335 of this prospectus.

PLANNED PROJECTS

We intend to engage in a number of large-scale water projects proposed in the Dianzhong New Industrial Zone. The development of the Dianzhong New Industrial Zone is an important strategy of the Yunnan provincial government and the PRC Government. According to the proposal for the Dianzhong New Industrial Zone Haikou — Caopu Water Diversion and Water Environment Comprehensive Utilisation Project, this project will comprise seven water related sub-projects in the Anning district and Yimen district of the Dianzhong New Industrial Zone. The total investment amount of this project will be approximately RMB6.8 billion with a construction period of approximately 42 months. As at the Latest Practicable Date, no sub-project of this project had commenced construction. We will actively explore opportunities to undertake suitable sub-projects of this project and other water projects in the Dianzhong New Industrial Zone in the future.

SUMMARY

We entered into a BT agreement in August 2014 and two supplemental agreements in December 2014 and March 2015 with New Century Dianchi, our connected person, for the construction of a number of water related projects in the Kunming Dianchi International Exhibition Centre, which is a proposed exhibition centre together with supporting residential, commercial and tourism facilities located in Kunming. The total investment amount is expected to be RMB300 million. We entered into one separate ancillary agreement in October 2014 to construct water facilities for two areas of the Kunming Dianchi International Exhibition Centre with a total investment amount of RMB80.0 million. Based on this ancillary agreement, we expect that the revenue for the sub-project will be RMB63.6 million, RMB28.2 million and RMB6.6 million, respectively, and the gross profit will be RMB3.6 million, RMB8.2 million and RMB6.6 million, respectively, for the years ending 31 December 2015, 2016 and 2017. As the construction with respect to this sub-project is expected to be completed in March 2016 and the repurchase period will commence in April 2017, we expect that no additional cost will be incurred in 2017. We expect to recognise a negative cash flow of RMB48.0 million and RMB13.2 million, respectively for the years ending 31 December 2015 and 2016 and recognise a positive cash flow of RMB26.6 million for the year ending 31 December 2017. As at the Latest Practicable Date, we had not commenced construction work for this sub-project. We will enter into separate ancillary agreements for the construction of water facilities in other areas of the Kunming Dianchi International Exhibition Centre. We expect the whole project to be completed in 2017.

In addition to the Dianzhong project and Dianchi project mentioned above, we plan to undertake (i) a waste incineration and power generation BOT project in Yuxi; (ii) five tap water supply BOT projects and one tap water supply BOO project, namely the Mengla Project; and (iii) three wastewater treatment, water supply and waste disposal BT projects (two of which are entrusted construction projects). The investment amount of the Shawan Industrial Park Wastewater Treatment Plant Phase I is subject to the approval of the feasibility report by the local government. For the other eight projects, we expect to invest an aggregate amount of approximately RMB857.0 million.

According to the feasibility report and the concession agreement for the Mengla project, we expect that the revenue for the Mengla project will be nil, RMB10.8 million and RMB13.5 million, respectively, and the gross profit will be nil, RMB4.8 million and RMB6.0 million, respectively, for the years ending 31 December 2015, 2016 and 2017. We expect to recognise a negative cash flow of RMB66.8 million and RMB10.4 million, respectively, for the years ending 31 December 2015 and 2016 and a positive cash flow of RMB8.8 million for the year ending 31 December 2017.

According to the entrusted construction agreement of the Ninger project, we expect that the total revenue and gross profit for this project will be RMB43.4 million and RMB7.4 million, respectively. We are not able to estimate the revenue and gross profit per year as the commencement date and completion date of construction cannot be determined at this stage for the reason that the local government is still in negotiation with the local residents with respect to land expropriation and no guarantee could be given by the local government on when the land expropriation will be completed.

SUMMARY

According to the entrusted construction agreement of the Dali Food Waste Disposal Project, we expect that the revenue for the project will be RMB57.4 million, RMB46.2 million and RMB6.7 million, respectively, and the gross profit will be RMB2.4 million, RMB7.3 million and RMB6.7 million, respectively, for the years ending 31 December 2015, 2016 and 2017. As the construction with respect to this project is expected to be completed in June 2016 and the repurchase period will commence in August 2017, we expect that no additional cost will be incurred in 2017. We expect to recognise a negative cash flow of RMB44.0 million and RMB28.3 million, respectively, for the years ending 31 December 2015 and 2016 and a positive cash flow of RMB20.9 million for the year ending 31 December 2017.

See “Business — Planned Projects” on page 231 of this prospectus.

POTENTIAL COOPERATION OPPORTUNITIES

We are currently in negotiations with three potential partners, who are all Independent Third Parties, in respect of a cooperation in two wastewater treatment facilities, three tap water supply facilities and one chemical waste disposal facility operated by these potential partners. All of the facilities are located in Shandong. The current aggregate designed daily wastewater treatment capacity of the two wastewater treatment facilities is 70,000 tonnes, the current aggregate designed daily tap water supply capacity of the three tap water supply facilities is 65,000 tonnes and the current annual waste disposal capacity of the chemical waste disposal facility is 44,800 tonnes.

As at the Latest Practicable Date, we had not signed any agreement with any of the three potential partners. The form of the proposed cooperation includes, but is not limited to, provision of engineering service or sale of equipment to the facilities operated by the potential partners, establishment of joint ventures with the potential partners to operate the facilities and obtaining the facilities operated by the potential partners through acquisition. However, the cooperation may or may not materialise depending on the negotiations between the parties. Our decision to proceed with the cooperation and the form of cooperation are subject to a variety of factors including, but not limited to, market conditions, business and financial needs, the relevant regulatory approvals, Shareholders approval as required under the Listing Rules, if applicable, and the results of our legal and financial due diligence on the project companies and the target facilities. Even if the parties decide to proceed with the cooperation and are able to reach a definitive agreement, it may take time for the parties to obtain the requisite government approvals and there may be further uncertainty involved. We plan to use our internal resources to fund our projects with these potential partners.

See “Business — Potential Cooperation Opportunities” on page 239 of this prospectus.

OFFER STATISTICS

Except where otherwise indicated, the Global Offering statistics have been prepared on the assumption that the Over-allotment Option is not exercised. The Offer Prices of HK\$5.00 per H Share and HK\$5.80 per H Share do not include the 1% brokerage, 0.005% Stock Exchange trading fee and 0.0027% SFC transaction levy, which are payable by applicants under the Global Offering.

SUMMARY

	Based on an Offer Price of HK\$5.00 per H Share	Based on an Offer Price of HK\$5.80 per H Share
Our Company's H Share market capitalisation upon completion of the Global Offering ⁽¹⁾	HK\$1,581.4 million	HK\$1,834.4 million
Our Company's total market capitalisation upon completion of the Global Offering ⁽²⁾	HK\$5,750.4 million	HK\$6,670.5 million
Pro forma adjusted net tangible asset value per Share ⁽³⁾	HK\$3.55	HK\$3.74

- (1) The calculation is based on 316,273,100 H Shares expected to be in issue following the completion of the Global Offering assuming the Over-allotment Option is not exercised.
- (2) The calculation is based on 1,150,085,457 Shares expected to be in issue following the completion of the Global Offering assuming the Over-allotment Option is not exercised.
- (3) Pro forma adjusted net tangible asset per Share has been arrived at after adjustments referred to in Appendix II.

NO MATERIAL ADVERSE CHANGE

Our Directors confirm that, up to the date of this prospectus, there has been no material adverse change in our financial or trading position since 31 December 2014 and there has been no event since 31 December 2014 which would materially and adversely affect the information shown in the Accountant's Report.

LISTING EXPENSES

The total estimated listing expenses in relation to the Global Offering (including underwriting commission based on the mid-Offer Price of HK\$5.40) is expected to be approximately RMB122.1 million. During the Track Record Period, we incurred listing expenses in relation to the Global Offering of RMB34.2 million. We expect to incur further listing expenses in relation to the Global Offering of approximately RMB87.9 million prior to the completion of the Global Offering, of which approximately RMB12.8 million will be recognised in our consolidated statements of comprehensive income for the year ending 31 December 2015 and approximately RMB75.1 million will be deducted from equity upon the Listing.

The listing expenses above are the latest practicable estimate and are for reference only. The actual amount may differ from this estimate. Our Directors do not expect such expenses to have a material adverse impact on our financial results for the year ending 31 December 2015.

SUMMARY

DIVIDEND POLICY

After completion of the Global Offering, our Shareholders will be entitled to receive dividends declared by us. The proposal of payment and the amount of our dividends will be made at the discretion of our Board and will depend on our general business condition and strategies, cash flows, financial results and capital requirements, the interests of our Shareholders, taxation conditions, statutory and regulatory restrictions and other factors that our Board deems relevant. Any dividend distribution shall also be subject to the approval of our Shareholders in a Shareholders' meeting. In addition, we are restricted from distributing profits before the losses from previous years have been made up and the allocations to the statutory reserve fund have been made. As a result, we may not be able to distribute dividends to our Shareholders. See "Risk Factors — Risks Relating to Conducting Business in the PRC — Payment of dividends is subject to restrictions under PRC law" on page 69 of this prospectus.

SPECIAL DIVIDEND

Pursuant to a resolution passed at a Shareholders' meeting dated 1 November 2014, our Shareholders have resolved to declare a special distribution in the amount of RMB1.7 per 10 shares held by our Shareholders registered as at 31 December 2012. The total aggregate amount of the special dividend was RMB110.5 million and such amount was paid to Shareholders in December 2014. We paid the special dividend out of our internal resources. The holders of H Shares are not entitled to share in the special dividend. Our Shareholders registered as at 31 December 2012 were the only Shareholders entitled to the special dividend. In addition, any distributable profits available for distribution to our Shareholders after the Global Offering will exclude the special dividend. The special dividend is not an indication of our future dividend distribution policy or practice.

USE OF PROCEEDS

The net proceeds of the Global Offering are expected to be approximately HK\$1,397.9 million (US\$179.2 million), assuming that the Over-allotment Option is not exercised, after deducting the underwriting commissions and other estimated offering expenses payable by us and assuming the initial Offer Price of HK\$5.40 per H Share, being the mid-point of the indicative Offer Price range set out on the cover page of this prospectus.

We intend to use the net proceeds from the Global Offering for the purposes and in the amounts set out below:

- approximately 30%, or HK\$419.4 million (US\$53.8 million), is expected to be used to finance the acquisition of existing wastewater treatment projects to be identified by us, which will help us to enter into new markets and expand our project portfolio and treatment capacity. As at the Latest Practicable Date, we had neither entered into any letter of intent or agreement for such acquisition nor identified any definitive acquisition target;

SUMMARY

- approximately 30%, or HK\$419.4 million (US\$53.8 million), is expected to be used for investing in and developing our new wastewater treatment and water supply projects in order to expand our market share in the PRC;
- approximately 30%, or HK\$419.4 million (US\$53.8 million), is expected to be used for repayment of a portion of our current bank borrowings which were RMB400.0 million as at 31 March 2015 as follows:

Lender	Outstanding principal amount as at 31 March 2015	Interest Rate	Maturity Date	Use of Borrowings
Bank of China	RMB90.0 million	6.88%	30 December 2028	To finance the construction of Dali Wastewater Treatment Plant Phase II
Bank of China	RMB60.0 million	6.88%	30 December 2023	To finance the construction of Dali Water Supply Plant II Phase II
Bank of Communications	RMB50.0 million	6.30%	27 October 2015	To purchase wastewater treatment equipment
Bank of Communications	RMB100.0 million	6.05%	17 December 2015	To purchase wastewater treatment equipment
China Merchants Bank	RMB100.0 million	6.64%	31 July 2019	To finance the construction of Membrane Production Plant

- approximately 10%, or HK\$139.8 million (US\$17.9 million), is expected to be used to fund our working capital and for general corporate purposes.

DEFINITIONS

In this prospectus, unless the context otherwise requires, the following expressions have the following meanings:

“27 Management Shareholders”	the 30 Management Shareholders, excluding the Acting in Concert Parties
“29 Management Shareholders”	Yu Long, Yang Fang, Hu Shake, Liu Xujun, Huang Yunjian, Zhao Peng, Luo Yuxuan, Chen Xiangwen, Li Junfeng, Zhang Ruliang, Gui Hao, Huang Yi, Mi Shiyun, Wang Yong, Luo Hongyan, Zhou Zhimi, Mo Cunyan, Chen Nianjuan, Yang Chuanyun, Liu Nanjiao, Li Guoqiang, Ma Dongjun, Zhang Ruzhi, Xu Qiang, Dai Shaobo, Shi Jiayong, Que Yunlei, Hong Fang, Song Chunxia, see “History, Reorganisation and Corporate Structure — Reorganisation and increase in registered capital” for their respective shareholding in our Company
“30 Management Shareholders”	the 29 Management Shareholders and Li Bo, see “History, Reorganisation and Corporate Structure — Reorganisation and increase in registered capital” for their respective shareholding in our Company
“Acting in Concert Agreement”	the acting in concert agreement dated 24 July 2014 entered into between Yunnan Province Water and the Acting in Concert Parties, pursuant to which the Acting in Concert Parties agreed to act in concert with Yunnan Province Water in exercising their voting rights in the Shareholders’ meeting of our Company
“Acting in Concert Parties”	Liu Xujun and Huang Yunjian, both the executive Directors, and Wang Yong, a member of the senior management of our Company
“affiliate(s)”	any other person, directly or indirectly, controlling or controlled by or under direct or indirect common control with such specified person
“Application Form(s)”	WHITE application form(s), YELLOW application form(s) and GREEN application form(s), or where the context so requires, any of them
“AQSIQ”	The General Administration of Quality Supervision, Inspection and Quarantine of the PRC (國家質量監督檢驗檢疫總局)
“Articles of Association”	the articles of association of our Company conditionally adopted on 16 September 2014 and as amended from time to time, a summary of which is set out in Appendix IV

DEFINITIONS

“associate(s)”	has the meaning ascribed thereto under the Listing Rules
“Bazhou Keda Haorui”	Bazhou Keda Haorui Environmental Investment Co., Ltd. (巴州科達浩瑞環境投資有限公司), a joint venture, which is a limited liability company established in the PRC on 5 January 2015 and is held as to 43.75% by our Company and 56.25% by an Independent Third Party
“Beijing Clean”	Beijing Clean Environmental Technology Development Co., Ltd. (北京科林皓華環境科技發展有限責任公司), our subsidiary, which is a limited liability company established in the PRC on 22 May 2009 and is held as to 52.38% by our Company and 47.62% by four Independent Third Parties
“Beijing OriginWater”	Beijing OriginWater Technology Co., Ltd. (北京碧水源科技股份有限公司), our Controlling Shareholder, which held 33.23% of our issued share capital as at the Latest Practicable Date and is a limited liability company established in the PRC on 17 July 2001 and listed on the Shenzhen Stock Exchange (stock code: 300070)
“BDO”	BDO China Shu Lun Pan Certified Public Accountants LLP (立信會計師事務所(特殊普通合伙)), our internal control consultant
“Board” or “Board of Directors”	the board of Directors
“Business Day”	a day on which banks in Hong Kong are generally open for business to the public and which is not a Saturday, Sunday or public holiday in Hong Kong
“CAGR”	compound annual growth rate
“Cangyuan Water”	Cangyuan Water Industry Investment Co., Ltd. (滄源侏族自治縣水務產業投資有限公司), a limited liability company established in the PRC on 1 June 2010 and a wholly-owned subsidiary of our Company
“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 general clearing participant
“CCASS Custodian Participant”	a person admitted to participate in CCASS as a custodian participant

DEFINITIONS

“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
“Circular Economy”	Yunnan Circular Economy Investment Co., Ltd. (雲南循環經濟投資有限公司), a limited liability company established in the PRC on 10 August 2010 and is held as to 70% by YMCI and 30% by Yunnan Province Water
“CMS” or “Sole Sponsor” or “Sole Global Coordinator” or “Sole Bookrunner” or “Sole Lead Manager” or “Stabilising Manager”	China Merchants Securities (HK) Co., Limited, a corporation licensed to carry out Type 1 (dealing in securities), Type 2 (dealing in futures contracts), Type 4 (advising on securities), Type 6 (advising on corporate finance) and Type 9 (asset management) regulated activities under the SFO
“Companies Ordinance”	the Companies Ordinance (Chapter 622 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
“Companies (WUMP) 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”	Yunnan Water Investment Co., Limited (雲南水務投資股份有限公司), a joint stock company with limited liability incorporated in the PRC on 22 July 2014 and whose predecessor is Yunnan Water Co. For further details of the history and reorganization of our Company, see “History, Reorganisation and Corporate Structure”
“Company Law”	the Company Law of the PRC (中華人民共和國公司法), as amended and supplemented from time to time
“connected person(s)”	has the meaning ascribed thereto under the Listing Rules
“Controlling Shareholders”	has the meaning ascribed thereto under the Listing Rules and unless the context requires otherwise, refers to YMCI, Yunnan Province Water, Beijing OriginWater and the Acting in Concert Parties
“Corporate Reorganisation”	the corporate reorganisation of our Group conducted in preparation for the Listing, details of which are set out in “History and Corporate Structure — Corporate Reorganisation”

DEFINITIONS

“CSRC”	China Securities Regulatory Commission (中國證券監督管理委員會), a regulatory body responsible for the supervision and regulation of the securities markets in the PRC
“Daguan Water”	Daguan Water Industry Investment Co., Ltd. (大關縣水務產業投資有限公司), a limited liability company established in the PRC on 10 May 2011 and a wholly-owned subsidiary of our Company
“Dali Asset Company”	Dali State-owned Asset Operation Co. Ltd. (大理市國有資產經營有限責任公司), a limited liability company established in the PRC which holds 25% of the equity interest of Dali Water and is one of our connected persons
“Dali Water”	Dali Water Industry Investment Co., Ltd. (大理水務產業投資有限公司), our subsidiary, which is a limited liability company established in the PRC on 27 March 1997 and is held as to 45% by our Company. The remaining 25%, 15% and 15% equity interests are held by Dali Asset Company, Dali Travel Resort State-owned Asset Operation Co., Ltd. (大理省級旅遊度假區國有資產經營有限責任公司) and Dali Dongcheng Urban Engineering Co., Ltd. (大理市東城區市政工程有限責任公司), respectively. Our Company controls 70% voting rights in Dali Water pursuant to an acting in concert agreement dated 9 April 2014 between Yunnan Water Co. and Dali Asset Company
“Dali Water Secondary Water Supply”	Dali Water Secondary Water Supply Co., Ltd. (大理市水務二次供水有限公司), a limited liability company established in the PRC on 29 April 2015 and a wholly-owned subsidiary of Yunnan Water Secondary Water Supply
“Dayao Water”	Dayao Water Industry Investment Co., Ltd. (大姚縣水務產業投資有限公司), a limited liability company established in the PRC on 21 October 2009 and a wholly-owned subsidiary of our Company
“Dianzhong Water”	Yunnan Dianzhong Water Co., Ltd. (雲南滇中水務有限公司), our subsidiary, which is a limited liability company established in the PRC on 14 September 2014 and is held as to 80% by our Company. The remaining 12%, 5% and 3% equity interests are held by Yunnan Dianzhong Development Group Co., Ltd., and two Independent Third Parties, respectively

DEFINITIONS

“Director(s)”	the director(s) of our Company
“Domestic Shares”	ordinary shares issued by our Company with a nominal value of RMB1.00 each, which are subscribed for or credited as paid in Renminbi and are currently not listed or traded on any stock exchange
“EIT Law”	Enterprise Income Tax Law of the PRC (《中華人民共和國企業所得稅法》), promulgated by the National People’s Congress on 16 March 2007 and effective as at 1 January 2008
“Emin Water”	Emin Water Industry Investment Co., Ltd. (額敏縣水務產業投資有限公司), a limited liability company established in the PRC on 18 April 2013 and a wholly-owned subsidiary of our Company
“EY Advisory”	Ernst & Young (安永), an independent industry consultant engaged by us for the Listing
“EY Report”	the industry overview report issued by EY Advisory
“Fengyuan Water”	Yunnan Fengyuan Water Co., Ltd. (雲南豐源水務股份有限公司), a limited liability company established in the PRC on 20 May 2009 and is held as to 60% by Kunming Water Supply Group (昆明自來水集團) and 40% by YMCI, one of our Controlling Shareholders
“Finergy Development”	Finergy Development (Tianjin) Equity Investment Partnership (Limited Partnership) (融源成長(天津)股權投資合夥企業(有限合夥)), a limited partnership established in the PRC on 28 June 2010 and one of our pre-IPO investors
“GDP”	gross domestic product
“Gengma Water”	Gengma Water Industry Investment Co., Ltd. (耿馬縣水務產業投資有限公司), a limited liability company established in the PRC on 3 June 2010 and a wholly-owned subsidiary of our Company
“Global Offering”	the Hong Kong Public Offering and the International Offering
“Government Procurement Law”	The Government Procurement Law (政府採購法) of the PRC promulgated by the NPC Standing Committee on 29 June 2002, implemented on 1 January 2003 and revised on 31 August 2014

DEFINITIONS

“ GREEN Application Form(s)”	the application form(s) to be completed by HK eIPO White Form Service Provider
“Group”, “our Group”, “we”, “our” or “us”	our Company and its subsidiaries at the relevant time or, where the context so requires in respect of the period before our Company became the holding company of its present subsidiaries, the present subsidiaries of our Company and the businesses carried on by such subsidiaries or (as the case may be) their predecessors
“Guan Clean”	Guan Clean Waste Treatment Co., Ltd. (固安科林垃圾處理有限公司), a limited liability company established in the PRC on 13 May 2013 and a wholly-owned subsidiary of Beijing Clean
“Guoqing Environmental”	Yunnan Guoqing Environmental and Energy Conservation Technology and Engineering Co., Ltd. (雲南國清環保節能科技工程有限公司), our subsidiary, which is a limited liability company established in the PRC on 4 January 2005 and is held as to 60% by our Company and 40% by an Independent Third Party
“H Share Registrar”	Tricor Investor Services Limited, the Hong Kong share registrar and transfer office of our Company
“H Share(s)”	ordinary shares issued by us, with a nominal value of RMB1.00 each in the share capital of our Company, which are to be subscribed for and traded in Hong Kong dollars and for which an application has been made for listing and permission to trade on the Stock Exchange
“Hangzhou Qingyu”	Hangzhou Qingyu Jianzai Venture Capital Investment Partnership (Limited Partnership) (杭州青域簡在創業投資合夥企業(有限合夥)), a limited partnership established in the PRC on 24 March 2014 and one of our pre-IPO investors
“Heqing Water”	Heqing Water Industry Investment Co., Ltd. (鶴慶縣水務產業投資有限公司), a limited liability company established in the PRC on 19 May 2010 and a wholly-owned subsidiary of our Company
“HK\$” or “Hong Kong dollars”	Hong Kong dollars, the lawful currency of Hong Kong
“HK eIPO White Form”	the application for the Hong Kong Offer Shares to be issued in the applicant’s own name by submitting applications online through the designated website at www.hkeipo.hk

DEFINITIONS

“HK eIPO White Form Service Provider”	The Bank of East Asia, Limited
“HKFRS”	Hong Kong Financial Reporting Standards, including Hong Kong Accounting Standards and Interpretations promulgated by the Hong Kong Accounting Standard Board
“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 Offer Shares”	the 28,754,000 Shares being made available by our Company for subscription pursuant to the Hong Kong Public Offering, subject to adjustment as described in “Structure of the Global Offering”
“Hong Kong Public Offering”	the offer for subscription of the Hong Kong Offer Shares in Hong Kong at the Offer Price on and subject to the terms and conditions of this prospectus and the Application Forms, as further described in “Structure of the Global Offering”
“Hong Kong Underwriter”	China Merchants Securities (HK) Co., Limited, the underwriter of the Hong Kong Public Offering
“Hong Kong Underwriting Agreement”	the underwriting agreement dated 12 May 2015 and entered into by, among others, our Company, China Merchants Securities (HK) Co., Limited and the Controlling Shareholders relating to the Hong Kong Public Offering
“Honghe Water”	Honghe Water Industry Investment Co., Ltd. (紅河州水務產業投資有限公司), a limited liability company established in the PRC on 14 November 2012 and a wholly-owned subsidiary of our Company
“Huoerguosi Haorui Water”	Huoerguosi Haorui Water Investment Co., Ltd. (霍爾果斯浩瑞水務投資有限公司), a limited liability company established in the PRC on 15 October 2014 and a wholly-owned subsidiary of our Company

DEFINITIONS

“Independent Third Party(ies)”	an individual(s) or a company(ies) who or which is/are independent of and not connected with (within the meaning of the Listing Rules) any Director, chief executive or substantial Shareholder (within the meaning of the Listing Rules) of our Company, its subsidiaries or any of their respective associate(s)
“International Offer Shares”	the 258,767,000 Shares initially offered by our Company for subscription at the Offer Price under the International Offering (subject to adjustment as described in “Structure of the Global Offering”) together with (unless the context otherwise requires) any Shares issued pursuant to the exercise of the Over-allotment Option
“International Offering”	the conditional placing by the International Underwriter of the International Offer Shares on and subject to the terms and conditions stated herein and in the International Underwriting Agreement, details of which are described in “Structure of the Global Offering”
“International Underwriter”	China Merchants Securities (HK) Co., Limited, the underwriter of the International Offering
“International Underwriting Agreement”	the underwriting agreement relating to the International Offering and expected to be entered into by, among others, our Company, the Sole Global Coordinator, the Sole Bookrunner, the Sole Lead Manager and the International Underwriter, on or about the Price Determination Date
“Jianshui Water”	Jianshui Water Industry Investment Co., Ltd. (建水縣水務產業投資有限公司), a limited liability company established in the PRC on 30 October 2009 and a wholly-owned subsidiary of our Company
“Jinggu Water”	Jinggu Water Industry Investment Co., Ltd. (景谷水務產業投資有限公司), a limited liability company established in the PRC on 4 February 2010 and a wholly-owned subsidiary of our Company
“Jinghong Haotai”	Jinghong Haotai Real Estate Limited (景洪皓泰置業有限公司), a limited liability company established in the PRC on 16 June 2011 and our former subsidiary

DEFINITIONS

“Jinghong Urban Investment”	Jinghong Urban Investment Development Co., Ltd. (景洪市城市投資開發有限公司), a limited liability company established in the PRC on 3 August 2007, which owns 49% of the equity interest of Jinghong Water
“Jinghong Water”	Jinghong Water Supply and Drainage Co., Ltd. (景洪市給排水有限責任公司), our subsidiary, which is a limited liability company established in the PRC on 7 April 2008 and is held as to 51% by our Company and 49% by Jinghong Urban Investment
“Jinning Water”	Yunnan Guoqing Jinning Water Co., Ltd. (雲南國清晉寧水務有限公司), our subsidiary, which is a limited liability company established in the PRC on 11 July 2011 and is held as to 50% by Guoqing Environmental and the remaining 50% by Mr. Ma Xiaojun, an Independent Third Party. Guoqing Environmental controls 95% voting rights in Jinning Water pursuant to an acting in concert agreement dated 23 September 2013 between Mr. Ma Xiaojun and Guoqing Environmental
“JLL”	Jones Lang LaSalle Corporate Appraisal and Advisory Limited
“Kelamayi Haorui Water”	Kelamayi Haorui Water Industry Investment Co., Ltd. (克拉瑪依浩瑞水務投資有限公司), a limited liability company established in the PRC on 25 July 2013 and a wholly-owned subsidiary of our Company
“Kunming Ruiyuan”	Kunming Ruiyuan Tap Water Co., Ltd. (昆明瑞源自來水有限責任公司), our former joint venture, which is a limited liability company established in the PRC on 14 December 2010
“Lancang Water”	Lancang Water Industry Investment Co., Ltd. (瀾滄水務產業投資有限公司), a limited liability company established in the PRC on 9 December 2010 and a wholly-owned subsidiary of our Company
“Lanping Water”	Lanping Water Industry Investment Co., Ltd. (蘭坪縣水務產業投資有限公司), a limited liability company established in the PRC on 15 December 2009 and a wholly-owned subsidiary of our Company
“Latest Practicable Date”	4 May 2015, being the latest practicable date prior to the printing of this prospectus for the purpose of ascertaining certain information contained in this prospectus

DEFINITIONS

“Lianghe Water”	Lianghe Water Industry Investment Co., Ltd. (梁河縣水務產業投資有限公司), a limited liability company established in the PRC on 15 June 2011 and a wholly-owned subsidiary of our Company
“Listing”	the listing of the H 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 27 May 2015, on which the H Shares are listed and from which dealings therein are permitted to take place on the Stock Exchange
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (as amended from time to time)
“Liuku Water”	Nujiang Liuku Water Supply Co., Ltd. (怒江六庫給排水有限公司), a limited liability company converted from Nujiang Liuku Water Supply Company in June 2014 and a wholly-owned subsidiary of our Company
“Longchuan Water”	Longchuan Water Industry Co., Ltd. (隴川水務產業有限公司), a limited liability company established in the PRC on 12 August 2011 and a wholly-owned subsidiary of our Company
“Longsheng Property”	Mengla Longsheng Property Development Co., Ltd. (勐臘隆盛房地產開發有限公司), a limited liability company established in the PRC on 16 October 2012 and a wholly-owned subsidiary of Mengla Water
“Ludian Water”	Ludian Water Industry Investment Co., Ltd. (魯甸縣水務產業投資有限公司), a limited liability company established in the PRC on 21 October 2009 and a wholly-owned subsidiary of our Company
“Lufeng Water”	Lufeng Water Industry Investment Co., Ltd. (祿豐縣水務產業投資有限公司), a limited liability company established in the PRC on 26 January 2010 and a wholly-owned subsidiary of our Company
“Lushui Water”	Lushui Water Industry Investment Co., Ltd. (瀘水縣水務產業投資有限公司), a limited liability company established in the PRC on 10 December 2009 and a wholly-owned subsidiary of our Company

DEFINITIONS

“Luxi Water”	Luxi Water Industry Investment Co., Ltd. (瀘西縣水務產業投資有限公司), a limited liability company established in the PRC on 9 November 2009 and a wholly-owned subsidiary of our Company
“Maguan Water”	Maguan Water Industry Investment Co., Ltd. (馬關縣水務產業投資有限公司), our joint venture, which is a limited liability company established in the PRC on 22 April 2010 and is held as to 75% by Wenshan Water and the rest by Maguan State-owned Assets Management Co. Ltd. (馬關縣國有資產(持股)經營有限公司)
“Main Board”	the stock market (excluding the option market) operated by the Stock Exchange which is independent from and operated in parallel with the Growth Enterprise Market of the Stock Exchange
“Mandatory Provisions”	the Mandatory Provisions for the Articles of Association of Companies Seeking a Listing Outside the PRC (到境外上市公司章程必備條款) promulgated on 27 August 1994 by the Securities Commission and the State Restructuring Commission, as amended, supplemented or otherwise modified from time to time
“Membrane Production Plant”	our plant located in Kunming, PRC for the manufacture of membranes and related equipment
“Menghai Water”	Menghai Water Industry Co., Ltd. (勐海水務產業有限公司), a limited liability company established in the PRC on 14 September 2010 and a wholly-owned subsidiary of our Company
“Mengla Water”	Mengla Water Supply and Drainage Co., Ltd. (勐臘縣給排水有限責任公司), our subsidiary, which is a limited liability company established in the PRC on 9 September 2011 and is held as to 51% by our Company and as to 49% by Jinghong Urban Investment
“Menglian Water”	Menglian Water Industry Investment Co., Ltd. (孟連水務產業投資有限公司), a limited liability company established in the PRC on 19 May 2011 and a wholly-owned subsidiary of our Company
“Mengpeng Water”	Mengla Mengpeng Shuntong Water Supply Co., Ltd. (勐臘縣勐捧順通自來水有限責任公司), a limited liability company established in the PRC on 27 October 2005 and a wholly-owned subsidiary of Jinghong Water

DEFINITIONS

“MEP”	the Ministry of Environmental Protection of the PRC (中華人民共和國環境保護部)
“Mile Water”	Mile Water Industry Investment Co., Ltd. (彌勒市水務產業投資有限公司), a limited liability company established in the PRC on 3 December 2010 and a wholly-owned subsidiary of our Company
“Ministry of Finance”	the Ministry of Finance of the PRC (中華人民共和國財政部)
“MOHURD”	the Ministry of Housing and Urban-Rural Development of the PRC (中華人民共和國住房和城鄉建設部)
“Mojiang Water”	Mojiang Water Industry Investment Co., Ltd. (墨江水務產業投資有限公司), a limited liability company established in the PRC on 3 February 2010 and a wholly-owned subsidiary of our Company
“Nanjian Water”	Nanjian Water Industry Investment Co., Ltd. (南澗縣水務產業投資有限公司), a limited liability company established in the PRC on 12 March 2010 and a wholly-owned subsidiary of our Company
“NDRC”	the National Development and Reform Commission (中華人民共和國國家發展和改革委員會)
“New Century Dianchi”	Yunnan New Century Dianchi International Cultural Tourism Convention Investment Co. Ltd. (雲南新世紀滇池國際文化旅遊會展投資有限公司), a limited liability company established in the PRC, a non wholly-owned subsidiary of YMCI, and one of our connected persons
“Ninger Water”	Ninger Water Industry Investment Co., Ltd. (寧洱水務產業投資有限公司), a limited liability company established in the PRC on 25 January 2010 and a wholly-owned subsidiary of our Company
“Non-competition Agreements”	the non-competition agreement dated 6 May 2015 entered into among Yunnan Province Water, YMCI and our Company and the non-competition agreement dated 6 May 2015 entered into between Beijing OriginWater and our Company, details of which are disclosed in “Relationship with Controlling Shareholders”
“Non-competition Undertaking”	the non-competition undertaking dated 6 May 2015 entered into by the Acting in Concert Parties in favour of our Company, details of which are disclosed in “Relationship with Controlling Shareholders”

DEFINITIONS

“NPC” or “National People’s Congress”	the National People’s Congress of the PRC (中華人民共和國全國人民代表大會), the national legislative body of the PRC
“NSSF”	the National Council for Social Security Fund of the PRC (全國社會保障基金理事會), an organisation set up by the State Council for the management and operation of the national social security fund of the PRC
“Offer Price”	the final offer price per Offer Share (excluding brokerage, SFC transaction levy and Stock Exchange trading fee) which will be not more than HK\$5.80 and is expected to be not less than HK\$5.00
“Offer Shares”	the Hong Kong Offer Shares and the International Offer Shares
“OriginWater Membrane Technology”	Yunnan OriginWater Membrane Technology Co., Ltd. (雲南城投碧水源膜科技有限責任公司), our subsidiary, which is a limited liability company established in the PRC on 13 December 2013 and is held as to 71.93% by OriginWater Technology and 28.07% by an Independent Third Party
“OriginWater Technology”	Yunnan OriginWater Technology Company Limited (雲南城投碧水源水務科技有限責任公司), a limited liability company established in the PRC on 2 February 2010 and a wholly-owned subsidiary of our Company
“Over-allotment Option”	the option to be granted by our Company to the International Underwriter and exercisable by the Sole Global Coordinator, pursuant to which our Company may be required by the Sole Global Coordinator to allot and issue up to 43,128,000 additional new H Shares, representing 15% of the Offer Shares initially available under the Global Offering, at the Offer Price to cover, among other things, over-allocations in the International Offering, if any
“PBOC”	the People’s Bank of China (中國人民銀行), the central bank in China
“PRC” or “China”	the People’s Republic of China excluding, for the purpose of this prospectus, Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
“PRC GAAP”	the PRC accounting standards

DEFINITIONS

“PRC Government” or “State”	the central government of the PRC, including all political sub-divisions (including provincial, municipal and other regional or local government entities) and instrumentalities thereof, or where the context requires, any of them
“Price Determination Agreement”	the agreement to be entered into between our Company and the Sole Global Coordinator on the Price Determination Date to record and fix the Offer Price
“Price Determination Date”	the date, expected to be on or about 18 May 2015 but not later than 26 May 2015, on which the Offer Price is determined for the purposes of the Global Offering
“Qingzheng New Material”	Shandong Qingzheng New Material Water Treatment Co., Ltd (山東清正新材料產業園水處理有限公司), a limited liability company established in the PRC on 11 April 2014 and a wholly-owned subsidiary of Shandong Environmental
“Regulation S”	Regulation S under the U.S. Securities Act
“RMB” or “Renminbi”	Renminbi, the lawful currency of the PRC
“SAFE”	the State Administration of Foreign Exchange (中華人民共和國國家外匯管理局)
“SASAC”	the State-owned Assets Supervision and Administration Commission of the State Council (國務院國有資產監督管理委員會)
“SAT”	the State Administration of Taxation of the PRC (國家稅務總局)
“SFC”	the Securities and Futures Commission of Hong Kong
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Shandong Environmental”	Shandong Environmental Industry Investment and Development Co., Ltd. (山東省環保產業投資發展有限公司), our subsidiary, which is a limited liability company established in the PRC on 20 January 2014 and is held as to 60% by our Company and 40% by an Independent Third Party
“Shandong Lingang Water”	Shandong Lingang Water Treatment Co., Ltd. (山東臨港水處理有限公司), our subsidiary, which is a limited liability company established in the PRC on 18 March 2013 and a wholly-owned subsidiary of Shandong Environmental

DEFINITIONS

“Share(s)”	ordinary share(s) of RMB1.00 each in the registered share capital of our Company
“Shareholder(s)”	holder(s) of the Share(s)
“Shareholders Agreement I”	the shareholders agreement dated 15 June 2013 entered into among Yunnan Province Water, Beijing OriginWater, Yunnan Water Co, the 29 Management Shareholders and Finergy Development as supplemented by a supplemental agreement dated 30 June 2014
“Shareholders Agreement II”	the shareholders agreement dated 23 July 2014 entered into among our Company, Yunnan Province Water, Beijing OriginWater, the 30 Management Shareholders, Finergy Development, Hangzhou Qingyu and Sichuan Rongchen, and the agreement dated 23 July 2014 entered into among YMCI, Yunnan Province Water, Hangzhou Qingyu and Sichuan Rongchen
“Shawan Haorui Water”	Shawan Haorui Water Industry Investment Co., Ltd. (沙灣縣浩瑞水務投資有限公司), a limited liability company established in the PRC on 16 May 2013 and a wholly-owned subsidiary of our Company
“Shuangjiang Water”	Shuangjiang Water Industry Investment Co., Ltd. (雙江水務產業投資有限公司), a limited liability company established in the PRC on 27 January 2010 and a wholly-owned subsidiary of our Company
“Shuifu Water”	Shuifu Water Industry Investment Co., Ltd. (水富縣水務產業投資有限公司), a limited liability company established in the PRC on 5 May 2011 and a wholly-owned subsidiary of our Company
“Sichuan Rongchen”	Sichuan Rongchen Investment Co., Ltd. (四川融琛投資有限公司), a limited liability company established in the PRC on 26 August 2009 and one of our pre-IPO investors
“SIPO”	the State Intellectual Property Office of the PRC (中華人民共和國國家知識產權局)
“SOE”	state-owned enterprise
“Special Regulations”	the Special Regulations of the State Council on the Overseas Offering and Listing of Shares by Joint Stock Limited Companies (國務院關於股份有限公司境外募集股份及上市的特別規定), as amended, supplemented or otherwise modified from time to time

DEFINITIONS

“State Council”	the State Council of the PRC (中華人民共和國國務院)
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Subscription Agreement I”	the subscription agreement dated 15 June 2013 entered into among Yunnan Province Water, Beijing OriginWater, Yunnan Water Co, the 29 Management Shareholders and Finergy Development, in respect of the investment by Finergy Development
“Subscription Agreement II”	the subscription agreement dated 23 July 2014 entered into among the Company, Yunnan Province Water, Beijing OriginWater, the 30 Management Shareholders, Finergy Development, Hangzhou Qingyu and Sichuan Rongchen, in respect of the investment by Yunnan Province Water, Hangzhou Qingyu and Sichuan Rongchen into our Company
“subsidiary(ies)”	has the meaning ascribed thereto under the Listing Rules
“substantial Shareholder(s)”	has the meaning ascribed thereto under the Listing Rules
“Supervisor(s)”	the supervisor(s) of our Company
“Tender Measures”	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意見) promulgated and implemented by the MOHURD 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 the MOHURD 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 MOHURD on 10 September 2005
“Tengchong Water”	Tengchong Water Industry Investment Co., Ltd. (騰沖縣水務產業投資有限公司), a limited liability company established in the PRC on 17 September 2009 and a wholly-owned subsidiary of our Company
“Track Record Period”	the three years ended 31 December 2014
“Underwriter”	the Hong Kong Underwriter and the International Underwriter
“Underwriting Agreements”	the Hong Kong Underwriting Agreement and the International Underwriting Agreement

DEFINITIONS

“United States” or “US”	the United States of America, its territories and possessions, any State of the United States and the District of Columbia
“U.S. dollars” or “US\$”	United States dollars, the lawful currency of the United States
“U.S. Securities Act”	the United States Securities Act of 1933, as amended from time to time
“Weixin Water”	Weixin Water Industry Investment Co., Ltd. (威信縣水務產業投資有限公司), a limited liability company established in the PRC on 10 May 2011 and a wholly-owned subsidiary of our Company
“Wenshan Water”	Wenshan Water Industry Investment Co., Ltd. (文山州水務產業投資有限公司), a joint venture, which is a limited liability company established in the PRC on 14 September 2009 and is held as to 51% by our Company and 49% by an Independent Third Party
“Wuxi Zhongfa Water”	Wuxi Zhongfa Water Investment Co., Ltd. (無錫中發水務投資有限公司), our subsidiary, which is a limited liability company established in the PRC on 5 July 2006 and is held as to 75% by our Company and the rest by an Independent Third Party
“Xishuangbanna Secondary Water Supply”	Xishuangbanna Secondary Water Supply Engineering Co., Ltd. (西雙版納二次供水工程有限公司), a joint venture, which is a limited liability company established in the PRC on 27 April 2015 and is held as to 51% by Yunnan Water Secondary Water Supply and 49% by Jinghong Water
“Xuzhou Zhongfa Water”	Xuzhou Zhongfa Water Investment Co., Ltd. (徐州中發水務投資有限公司), a limited liability company established in the PRC on 26 November 2010 and a wholly-owned subsidiary of Wuxi Zhongfa Water
“Yanjin Water”	Yanjin Water Industry Investment Co., Ltd. (鹽津縣水務產業投資有限公司), a limited liability company established in the PRC on 22 October 2009 and a wholly-owned subsidiary of our Company
“Yaoan Water”	Yaoan Water Industry Investment Co., Ltd. (姚安縣水務產業投資有限公司), a limited liability company established in the PRC on 27 January 2010 and a wholly-owned subsidiary of our Company

DEFINITIONS

“Yingjiang Water”	Yingjiang Water Industry Investment Co., Ltd. (盈江水務產業投資有限公司), a limited liability company established in the PRC on 4 May 2011 and a wholly-owned subsidiary of our Company
“YMCI”	Yunnan Metropolitan Construction Investment Co., Ltd. (雲南省城市建設投資集團有限公司), one of our Controlling Shareholders, which is a limited liability company established in the PRC on 28 April 2005 and the sole shareholder of Yunnan Province Water
“YMCI Group”	YMCI and its subsidiaries
“Yongping Water”	Yongping Water Industry Investment Co., Ltd. (永平縣水務產業投資有限公司), a limited liability company established in the PRC on 16 August 2011 and a wholly-owned subsidiary of our Company
“Yongren Water”	Yongren Water Industry Investment Co., Ltd. (永仁縣水務產業投資有限公司), a limited liability company established in the PRC on 21 October 2009 and a wholly-owned subsidiary of our Company
“Yongshan Water”	Yongshan Water Industry Investment Co., Ltd. (永善縣水務產業投資有限公司), a limited liability company established in the PRC on 31 October 2012 and a wholly-owned subsidiary of our Company
“Yunlong Water”	Yunlong Water Industry Investment Co., Ltd. (雲龍縣水務產業投資有限公司), a limited liability company established in the PRC on 19 October 2010 and a wholly-owned subsidiary of our Company
“Yunnan Construction”	Yunnan Construction Engineering Group Co., Ltd. (雲南建工集團有限公司), a limited liability company established in the PRC on 28 April 2000, which is wholly-owned by Yunnan SASAC, holds 3.79% equity interest in YMCI and an Independent Third Party
“Yunnan Province Water”	Yunnan Province Water Industry Investment Co., Ltd. (雲南省水務產業投資有限公司), one of our Controlling Shareholders, which is a limited liability company established in the PRC on 22 April 2009
“Yunnan SASAC”	the State-owned Assets Supervision and Administration Commission of Yunnan (雲南省人民政府國有資產監督管理委員會), holding 96.21% of YMCI

DEFINITIONS

“Yunnan Water Co.”	Yunnan Water Industry Investment and Development Co., Ltd. (雲南水務產業投資發展有限公司), a limited liability company established in the PRC on 21 June 2011, the predecessor of our Company
“Yunnan Water Consultation”	Yunnan Water Construction Consultation Services Co., Ltd. (雲南水務工程諮詢有限公司), a limited liability company established in the PRC on 29 September 2013 and a wholly-owned subsidiary of our Company
“Yunnan Water Hong Kong”	Yunnan Water (Hong Kong) Company Limited (雲南水務(香港)股份有限公司), a limited company incorporated in Hong Kong on 25 April 2014 and a wholly-owned subsidiary of our Company
“Yunnan Water Secondary Water Supply”	Yunnan Water Secondary Water Supply Co., Ltd. (雲南水務二次供水有限公司), our subsidiary, which is a limited liability company established in the PRC on 16 June 2014 and is held as to 60% by our Company and the remaining 40% interest by an Independent Third Party
“Yuxi Clean”	Yuxi Clean Environmental Protection Technology Co., Ltd. (玉溪市科林環保科技有限公司) a limited liability company established in the PRC on 21 September 2011 and a wholly-owned subsidiary of our Company
“Zhenxiong Water”	Zhenxiong Water Industry Investment Co., Ltd. (鎮雄縣水務產業投資有限公司), a limited liability company established in the PRC on 18 August 2011 and a wholly-owned subsidiary of our Company
“%”	per cent

Certain amounts and percentage figures included in this prospectus have been subject to rounding adjustments. Accordingly, figures shown as totals in certain tables may not be an arithmetic aggregation of the figures preceding them.

For ease of reference, the names of the PRC laws and regulations, governmental authorities, institutions, natural persons or other entities (including certain of our subsidiaries) have been included in this prospectus in both the Chinese and English languages and in the event of any inconsistency, the Chinese versions shall prevail.

GLOSSARY OF TECHNICAL TERMS

This glossary of technical terms contains explanations of certain terms used in this prospectus as they relate to our Company and are used in this prospectus in connection with our Group and our business. These terms and their given meanings may not correspond to standard industry meaning or usage.

“activated sludge”	a process for treating wastewater using air and a biological floc composed of bacteria and protozoa
“aerobic”	an environment in which oxygen is present or a process which occurs only in the presence of oxygen
“anaerobic”	an environment in which oxygen is absent or a process which occurs only in the absence of oxygen
“A ² /O and modified”	A ² /O (Anaerobic - Anoxic - Oxidic) is a commonly used technique for wastewater treatment, including pretreatment, biological treatment, biological and chemical post-treatment (after coagulation, sludge treatment, etc.)
“A/O and modified”	the A/O (Anaerobic/Oxidic) and modified process that improves upon the activated sludge process by using an anaerobic selector to develop a selective biomass that is naturally re-occurring in nearly all treatment plants. The process enhances phosphorus removal while reducing sludge-bulking organisms
“Biochemical treatment”	a method for treating wastewater by using biochemical methods
“BOO”	Build-Own-Operate, a project model in which an enterprise undertakes the financing, design, construction of wastewater treatment or water supply facilities, which are owned by the enterprise, and has the right to operate such facilities in the concession period during which the enterprise can charge service fees based on the supplied treated wastewater or tap water to cover its costs of investment, operation and maintenance and obtain reasonable returns, according to the concession agreement entered into by the enterprise and the government

GLOSSARY OF TECHNICAL TERMS

“BOD”	Biochemical Oxygen Demand, which is the amount of dissolved oxygen needed by aerobic biological organisms in a body of water to break down organic material present in a given water sample at certain temperature over a specific time period. It is widely used as an indication of the organic quality of water
“BOT”	Build-Operate-Transfer, a project model whereby, pursuant to a concession agreement entered into by an enterprise and the government, the government grants to the enterprise the rights to undertake the financing, design, construction, operation and maintenance of wastewater treatment or water supply facilities in a concession period, during which the enterprise can charge service fees based on the supplied treated wastewater or water to cover its costs of investment, operation and maintenance and obtain reasonable returns, while, upon the expiration of the concession period, the relevant facilities will be transferred back to the government at nil consideration
“BT”	Build and Transfer, a project model whereby an enterprise undertakes the financing, design and construction of a facility for the proprietor for certain fees to be paid during and upon the completion of the construction
“CASS/CAST”	CASS (Cyclic Activated Sludge System) is a combination of a biological selector and variable volume process reactor. The process operates with a single sludge in a single reactor basin to accomplish both biological treatment and solids-liquid separation. CASS is by design and operation with municipal wastewaters, a biological nutrient removal process, configured to function with filamentous sludge bulking control. CAST (Cyclic Activated Sludge Technology) is an improved technology based on CASS
“CMF technology”	continuous membrane filtration technology, a water treatment technology that utilises microfiltration/ ultrafiltration membrane to achieve removal of submicron contaminants in water, of which the system is typically made up of a membrane filtration unit and a membrane cleaning system

GLOSSARY OF TECHNICAL TERMS

“COD”	Chemical Oxygen Demand, a test commonly used to indirectly measure the amount of organic compounds in water
“Code for Design of Outdoor Water Supply Engineering (GB50013-2006)”	Code for Design of Outdoor Water Supply Engineering (GB50013-2006) promulgated by the MOHURD on 18 January 2006
“chemical flocculation”	a process wherein colloids come out of suspension in the form of floc or flake due to the addition of a clarifying agent
“Class I Standard A”	the highest treated wastewater standard in the National Wastewater Standards (GB18918-2002)
“Class I Standard B”	the second highest treated wastewater standard in the National Wastewater Standards (GB18918-2002)
“decanter”	a vessel or tank that is used to hold the decantation of a liquid (such as wastewater) which may contain sediment.
“EPC”	Engineering-Procurement-Construction, a project model in which an enterprise is commissioned by a customer to design, procure and construct a project and be responsible for the quality, safety, time control and pricing of the project according to the contract terms
“filtration”	commonly the mechanical or physical operation which is used for the separation of solids from liquid by interposing a medium through which only the liquid can pass
“m ³ ”	cubic meter
“MBR”	membrane bio-reactor technology, a water treatment technology combine activated sludge treatment with a membrane liquid-solid separation process, using low pressure microfiltration or ultrafiltration membranes and eliminating the need for clarification and tertiary filtration
“membrane”	a selective barrier that allows the passage of certain constituents and retains other constituents found in the liquid with the degree of selectivity of a membrane depending on the membrane pore size, according to which the membranes can be classified as microfiltration, ultrafiltration, nanofiltration and reverse osmosis membranes

GLOSSARY OF TECHNICAL TERMS

“Municipal Wastewater Discharge Standard”	the Wastewater Quality Standards for Discharge to Municipal Sewers (CJ 343 - 2010), promulgated by the MOHURD on 29 July 2010.
“National Drinking Water Standard (GB5749-2006)”	the Drinking Water Standard (GB 5749-2006), jointly promulgated by the Standardization and Administration of the PRC and the Ministry of Health of the PRC (now the National Health and Family Planning Commission of the PRC) on 1 July 2007
“National Wastewater Standard (GB18918-2002)”	the Integrated wastewater discharge standard (GB18918-2002), jointly promulgated by the MEP and the AQSIQ on 24 December 2002 and amended on 8 May 2006
“NH ₃ -N”	ammoniacal nitrogen, a measure for the amount of ammonia, a toxic pollutant often found in wastewater
“O&M”	Operation and Maintenance, a project model in which an enterprise is retained to operate and maintain water supply, wastewater treatment or waste disposal facilities for a certain period for certain operation and maintenance fees
“Oxidation Ditch”	Oxidation Ditch is adopted in areas where more land is available, and sewage is treated in large round or oval ditches with one or more horizontal aerators typically called brush or disc aerators which drive the mixed liquor around the ditch and provide aeration
“raw water supply”	supply of untreated water from natural resources such as rivers, lakes, pools or underground aquifers which can be used directly for, among others, industrial and irrigation use or used as tap water after purification
“SBR”	Sequencing Batch Reactor (SBR) is an activated sludge process designed to operate under non-steady state conditions. An SBR operates in a true batch mode with aeration and sludge settlement both occurring in the same tank
“sedimentation”	settling of suspended solids in a fluid through the natural process of gravity
“surface water”	surface water is water on the surface of the planet such as in a stream, river, lake, wetland, or ocean

GLOSSARY OF TECHNICAL TERMS

“Surface Water Quality Standard Class III (GB3838-2002)”	Class III of the Surface Water Quality Standard (GB3838-2002), jointly promulgated by the MEP and the AQSIQ on 28 April 2002
Surface Water Quality Standard Class IV (GB3838-2002)	Class IV of the Surface Water Quality Standard (GB3838-2002), jointly promulgated by the MEP and the AQSIQ on 28 April 2002
“tap water”	water supplied to a tap which usually is used for drinking, washing, cooking, and the flushing of toilets
“tap water supply”	use of physical, chemical and biological processes to remove pollutants from raw water before pumping it into a municipal pipeline network as tap water for various uses
“TN”	total nitrogen, the sum of nitrate-nitrogen ($\text{NO}_3\text{-N}$), nitrite-nitrogen ($\text{NO}_2\text{-N}$), ammonia-nitrogen ($\text{NH}_3\text{-N}$) and organically bonded nitrogen in wastewater
“TOO”	Transfer-Own-Operate, a project model whereby an enterprise purchases completed wastewater treatment or water supply facilities from the government and undertakes the operation of such facilities owned by the enterprise in the concession period, during which the enterprise can charge service fees based on the supplied treated wastewater or tap water to cover its costs of investment, operation and maintenance and obtain reasonable returns, according to the concession agreement entered into by the enterprise and the government
“TOT”	Transfer-Operate-Transfer, a project model whereby, pursuant to a concession agreement entered into by an enterprise and the government, the government grants to the enterprise the rights to undertake the operation and maintenance of wastewater treatment or water supply facilities in the concession period, during which the enterprise can charge service fees based on the supplied treated wastewater or tap water to cover its costs of investment, operation and maintenance and obtain reasonable returns, while upon the expiration of the concession period, the relevant facilities will be transferred back to the government at nil consideration
“TP”	total phosphorous, a measure of the remaining dissolved phosphate plus any insoluble phosphorous carried over into wastewater

GLOSSARY OF TECHNICAL TERMS

“μm”	Symbol of micrometre, which equals one-millionth of a metre
“utilised capacity”	the actual daily volume of water supplied or wastewater treated, as applicable
“utilisation rate”	the actual daily volume of water supplied or wastewater treated divided by the designed daily volume of water supplied or wastewater treated
“waste incineration and power generation”	waste incineration is a waste treatment process that involves the combustion of organic substances contained in waste materials. Incineration of waste materials converts the waste into ash, flue gas, and heat. The heat produced by an incinerator can be used to generate steam which may then be used to drive a turbine in order to produce electricity
“wastewater”	water that has been used for domestic or industrial purposes which may contain organic and inorganic pollutants, bacteria, dissolved and/or suspended solids
“wastewater treatment”	use of chemical and biological processes to remove pollutants from wastewater before discharging it into a water body or reclaiming it for re-use

FORWARD LOOKING STATEMENTS

In this prospectus, statements of or references to our intentions or that of any of our Directors are made as at the date of this prospectus. Any such intentions may change in light of future developments.

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 known or unknown risks, uncertainties and other factors, some of which are beyond our control, which may cause our actual results, performance or achievements, or industry results, to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements. These forward-looking statements include, without limitation, statements relating to:

- our operations and business prospects;
- future developments, trends and conditions in the industry in which we operate or into which we intend to expand;
- our strategies, plans, objectives and goals;
- the regulatory environment and industry outlook in general for the industries discussed herein;
- general political, economic, legal and social conditions in the markets in which we operate;
- our dividend policy;
- our future capital needs and capital expenditure plans;
- the amount and nature of, and potential for, future development of our business;
- capital markets developments;
- the competitive markets for our products and the actions and developments of our competitors;
- volumes, operations, margins, overall market trends, risk management and exchange rates;
- any changes in the laws, rules and regulations of the central and local governments in the PRC and other relevant jurisdictions and the rules, regulations and policies of the relevant governmental authorities relating to all aspects of our business and our business plans;

FORWARD LOOKING STATEMENTS

- changes or volatility in interest rates, foreign exchange rates, equity prices or other rates or prices, including those pertaining to the PRC and the industry and markets in which we operate;
- general political and economic conditions, including those related to the PRC and other relevant jurisdictions in which we have or intend to have business operations;
- financial condition and performance;
- regulations and restrictions;
- macroeconomic measures taken by the PRC Government to manage economic growth;
- other statements in this prospectus that are not historical fact; and
- other factors beyond our control.

The words “aim”, “anticipate”, “believe”, “could”, “predict”, “potential”, “continue”, “expect”, “going forward”, “intend”, “may”, “ought to”, “plan”, “project”, “seek”, “will”, “would”, “should” and the negative of these terms and other similar expressions identify a number of these forward-looking statements. These forward-looking statements are necessarily estimates reflecting the best judgment of our Directors and management and involve a number of risks, uncertainties and assumptions that could cause actual results to differ materially from those suggested by the forward-looking statements. Should one or more of these risks or uncertainties materialise, or should the underlying assumptions prove to be incorrect, our results of operations and financial condition may be adversely affected and may vary materially from those described herein as anticipated, believed or expected. Accordingly, such statements are not a guarantee of future performance and you should not place undue reliance on such forward-looking information. These forward-looking statements should be considered in light of various important factors, including those set out in “Risk factors”. Moreover, the inclusion of forward looking statements should not be regarded as representations by us that our plans and objectives will be achieved or realised. We undertake no obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. In light of these risks, uncertainties and assumptions, the forward-looking events discussed in this prospectus might not occur. Our Directors confirm that these forward-looking statements are made after due and careful consideration and on bases and assumptions that are fair and reasonable. All forward-looking statements in this prospectus are qualified by reference to this cautionary statement.

RISK FACTORS

The Global Offering involves certain risks. You should carefully consider all of the information in this prospectus, including, but not limited to, the risks and uncertainties described in the following risk factors when considering making an investment in our H Shares being offered in the Global Offering. Our operations involve certain risks, many of which are beyond our control. You should pay particular attention to the fact that we are a PRC company, our business is mainly located in the PRC and we are governed by a legal and regulatory environment that may differ from that which prevails in other countries and jurisdictions. Our business, financial condition and results of operations could be adversely affected by any of the risks and uncertainties described below. The trading price of our H Shares may decline due to any of the risks and uncertainties and you may lose all or part of your investment.

RISKS RELATING TO OUR BUSINESS AND INDUSTRY

We are subject to risks associated with changes in regulations and policies for wastewater treatment and water supply services in the PRC.

We operate within an industry where regulatory standards play a critical role in influencing the demand for our services. Any changes in legislative, regulatory or industrial requirements may render certain of our wastewater treatment and water supply facilities obsolete.

While the PRC Government has adopted a favourable regulatory policy to the environmental protection industry and has stated its intention to increase spending in such industry, we cannot assure you that the government will indeed execute such spending plan. Nor could we predict the precise impact on the wastewater treatment and water supply industries arising from such a spending plan. In addition, if the government withdraws or suspends its favourable policy to the environmental protection industry in the future, our growth and prospects could be materially and adversely affected.

Furthermore, changes in regulations or standards for wastewater treatment and water supply and other environmental regulations may necessitate the use of new technologies or the improvement of our existing technologies. We may need to develop new technologies, upgrade existing technologies or upgrade existing facilities to meet the standards imposed by the relevant regulatory authorities, which could require more financial, human or other resources. Our ability to anticipate changes in regulatory standards, to develop and introduce wastewater treatment and water supply processes and to keep up with such new regulatory standards will significantly affect our ability to grow and to remain competitive. In the event that we are unable to develop or source new and enhanced wastewater treatment and water supply solutions to keep up with such technological changes in a timely manner or at reasonable costs, we may not be able to maintain our competitive edge and our market share and profits may be adversely affected.

RISK FACTORS

Any adverse change in the economic development, social conditions, government policies or natural conditions of Yunnan could materially and adversely affect our business, financial condition, results of operations and prospects.

For the years ended 31 December 2012, 2013 and 2014, revenue derived from our subsidiaries registered in Yunnan accounted for 100%, 82.9% and 74.2% of our revenue, respectively. As at the Latest Practicable Date, we had a total of 92 BOT/TOT, BOO/TOO, BT, EPC and O&M projects under construction or in operation, with 82 BOT/TOT, BOO/TOO, BT, EPC and O&M projects located in Yunnan. While we will continue to grow our operations outside Yunnan, we expect a substantial portion of our revenue will continue to be derived from our BOT/TOT, BOO/TOO, BT, EPC and O&M projects in Yunnan in the near term.

In light of the concentration of our businesses in Yunnan, we are subject to risk exposures associated with such geographical region. Any economic slowdown in Yunnan could reduce the demand for our wastewater treatment and water supply services. In addition, Yunnan has historically experienced natural disasters such as earthquakes. Any occurrence of such events could jeopardise our operations. During the Track Record Period and up to the Latest Practicable Date, our facilities and business had not been materially affected by natural disasters. While the local government in Yunnan has adopted preferential policies for the wastewater treatment and water supply industry, such as the granting of government subsidies which have benefitted our businesses, we cannot assure you that the Yunnan government will not change or terminate such preferential policies in the future. If there is any adverse change in the economic development, social conditions or government policies in Yunnan, our business, financial condition, results of operations and prospects could be materially and adversely affected.

We may not be able to acquire, secure, develop and execute new projects to maintain and grow our business.

We derive a substantial portion of our revenue from the construction and operation of wastewater treatment and water supply projects under BOT/TOT and BOO/TOO project models. For the years ended 31 December 2012, 2013 and 2014, the revenue from the construction and operation of our wastewater treatment and water supply projects which we conducted under BOT/TOT and BOO/TOO project models accounted for approximately 82.9%, 72.5% and 54.5% of our revenue, respectively. Our future growth largely depends on our ability to acquire, secure, develop and execute new wastewater treatment and water supply projects. Our ability to acquire, secure, develop and execute such new projects is dependent on a number of factors, many of which are beyond our control, including:

- global, national and local economic conditions;
- national and local government policies and regulatory requirements, including environmental standards and the level and effectiveness of government promulgation of environmental protection measures that affect our customers;

RISK FACTORS

- the development of our target markets, including the development of local economies and local population growth and the resulting demand for wastewater treatment and water supply services;
- our ability to identify feasible and attractive projects and successfully win bids or competitive negotiations or complete commercial negotiations for such projects;
- our ability to collaborate with local governments to execute the construction and operation, as applicable, of wastewater treatment and water supply projects;
- competition in the PRC's wastewater treatment and water supply industries;
- the availability and cost of suitable land, infrastructure, equipment and raw materials necessary for the development and operation of wastewater treatment and water supply facilities; and
- the availability and cost of financing.

In addition, we may have limited knowledge of the local conditions of the new markets we enter. We cannot assure you that we will be able to successfully leverage our experience to expand into other parts of the PRC or overseas. If we fail to acquire, secure and execute new projects on terms and in a manner sufficient to support our anticipated growth, our business, results of operations, financial condition and prospects could be materially and adversely affected.

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

BOT/TOT, BOO/TOO and BT projects require us to incur significant expenditures and we only receive tariff payments or repurchase fees after the commencement of operation of our BOT/TOT and BOO/TOO projects and upon repurchase of our constructed BT projects. For the years ended 31 December 2012, 2013 and 2014, we incurred capital expenditures of RMB103.7 million, RMB350.5 million and RMB369.7 million, respectively. The average investment payback period for (i) our wastewater treatment projects under BOT/TOT or BOO/TOO models and (ii) our water supply projects under BOT/TOT or BOO models is approximately 12 years and six years from the date of commencement of construction or acquisition of such projects, respectively. The average repurchase period for our BT projects is around five years. Going forward, we intend to engage in a number of planned projects, including several large-scale water projects proposed in the Dianzhong New Industrial Zone (滇中產業新區) and the construction of water related projects in the Kunming Dianchi International Exhibition Centre. We will actively explore opportunities to undertake suitable sub-projects of the Haikou — Caopu Water Project and other water projects in the Dianzhong New Industrial Zone in the future. We expect to invest approximately RMB300 million to complete the water projects in the Kunming Dianchi International Exhibition Centre. See “Business — Planned Projects” for further details.

RISK FACTORS

We rely heavily on external sources of funding, including bank borrowings and other sources, to fund the construction and operation of our BOT/TOT, BOO/TOO and BT projects, resulting in our business being highly leveraged. During the Track Record Period, we entered into various loan agreements for project development or acquisition and we expect to continue this practice in the future. As at 31 December 2012, 2013 and 2014, our outstanding loans and borrowings were approximately RMB734.9 million, RMB655.8 million and RMB1,139.3 million, respectively. Our gearing ratio as at these dates was 20.3%, N/A and 16.2%, respectively.

Our ability to obtain external funding depends on many factors, including, but not limited to, general economic and capital market conditions, general conditions in the wastewater treatment and water supply industries, economic conditions in the geographic areas of our proposed projects, government policies, the availability of credit from banks and other lenders and the performance of our operational projects. We cannot assure you that such external funding will be available to us on acceptable terms or at all. Failure to obtain sufficient funding for our BOT/TOT, BOO/TOO or BT projects may delay the implementation of our projects, expose us to potential penalties under the relevant agreements and delay the completion of construction or commencement of operation, any of which could adversely affect our business, financial condition, results of operations and prospects.

We may not be able to adjust the tariffs charged for our services in a timely manner to fully reflect any increase in the actual costs of our concession projects.

Our concession agreements contain provisions specifying the circumstances under which we can adjust the tariffs we charge, including, but not limited to, changes in relevant regulations with regard to incoming wastewater or raw water to be treated and the quality standards for treated wastewater or raw water. Generally our concession agreements provide for periodic (generally triennial) assessments of unit prices based on the adjustment formula specified in the relevant concession agreements. However, we cannot assure you that the relevant government authorities will complete such procedures and increase the unit prices in a timely manner or that the increased tariffs will sufficiently compensate us for our increased cost.

If the local governments or their designees fail to adjust the wastewater treatment or water supply unit prices in accordance with the terms of the concession agreements, we can request the relevant local governments to compensate us for any losses incurred. However, we cannot assure you that the local governments will have sufficient funds to compensate us. We also cannot assure you that the relevant government authorities will not reduce the unit prices correspondingly should the relevant benchmark prices or key cost indices decrease. If we incur significantly higher operating costs without a corresponding increase in tariffs or if a reduction in tariffs occurs, we may not be able to sustain our profitability or may even incur a loss, and our financial condition and results of operations may be materially and adversely affected.

RISK FACTORS

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

We are required to obtain certain approvals, permits, licences and certificates from various competent government authorities and complete the environmental impact assessment in order to develop and operate each of our wastewater treatment and water supply projects. Details of the approvals, permits, licences and certificates we are required to obtain or maintain are set out in “Regulatory Environment” and “Business — Licences and Permits”. As at the Latest Practicable Date, we had failed to obtain the construction land use planning permits, construction planning permits and/or construction work commencement permits for seven of our major BOO/BOT projects and had failed to complete the environmental impact assessment for one of our BOT projects before the commencement of construction of the relevant facilities. Under relevant PRC laws and regulations, the government authorities could impose fines, suspension orders or cessation orders on the operation and construction of these facilities. See “Business — Non-Compliance”. In addition, as at the same date, nine of our subsidiaries had obtained temporary wastewater discharge permits which are due to expire soon, and they may not be able to obtain formal wastewater discharge permits upon expiry of the temporary wastewater discharge permits. We cannot assure you that all of these required approvals, licences, permits and certificates, such as wastewater discharge permits, and the environmental impact assessment, can be obtained or completed in a timely manner or at all.

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

Our BOT/TOT, BOO/TOO and BT projects require us to make significant investments and expose us to, among other risks, the risks of incorrect estimates or forecasts of the percentage of completion and costs of construction, maintenance and repair of the projects and the revenue to be derived from their operation.

We are subject to the risk of cost overruns during the construction phase of our BOT, BOO and BT projects. Many of the factors causing cost overruns are beyond our control, such as increases in raw material prices or the failure of equipment vendors to perform their contractual obligations. If the actual costs are significantly higher than our estimates and if we are not able to obtain sufficient compensation from our customers to offset the cost overruns, our business, financial performance and prospects could be materially and adversely affected.

RISK FACTORS

We use the percentage of completion method to recognise and account for revenue from construction in progress for our BT projects and estimate the amount of construction costs for the entire construction phase based on our assessment of, among other things, the conditions and costs of project contractors and equipment and other relevant costs. Inaccuracies or flaws in our measurements, the timing of completion or estimate for any given projects or in our estimation methodology as a whole, could have a material and adverse effect on the timing of our revenue recognition and on the amount of revenue recognised.

In addition, we make our decision to undertake BOT/TOT and BOO/TOO wastewater treatment and water supply projects in part based on our estimates of the demand for wastewater treatment and water supply services in the regions where our projects are located and the utilisation rates of our facilities. However, we cannot guarantee that the actual demand for wastewater treatment and water supply services or the utilisation rates of our facilities will always be in line with our estimates.

Moreover, while our BOT/TOT and TOO wastewater treatment projects and BOT raw water project are operated on the basis of a guaranteed minimum volume and/or guaranteed minimum unit prices, we cannot assure you that these projects will operate profitably during their respective concession periods, as the profitability of our facilities could be affected by many factors beyond our control, including government policies and increasing operational costs or maintenance costs which cannot be timely offset by increases in our unit prices. The concession agreements for our BOO wastewater treatment projects and tap water supply projects do not provide for a guaranteed minimum volume or guaranteed minimum unit prices. As a result, in addition to the aforementioned factors which are beyond our control, our BOO wastewater treatment projects and tap water supply projects are also subject to risks of insufficient incoming wastewater or raw water and reduced unit prices. We cannot assure you that the revenue derived from the operation of our BOT/TOT and BOO/TOO wastewater treatment and water supply projects will cover our initial investment and/or generate the expected profits.

Furthermore, our BOT/TOT and BOO/TOO projects are subject to operational risks given their long concession terms. For our BOT/TOT and BOO/TOO projects, we are responsible for all repairs and maintenance of the facilities. However, if our facilities fail to function as long or as efficiently as we have estimated, we may need to pay more for replacement parts or repairs and maintenance of the facilities or may experience longer shut-down periods than we originally anticipated. As a result, we may experience reduced profitability or losses.

Our further expansion may place strain on our resources.

Our future success will largely depend on our ability to grow our business through expanding our geographic footprint. Expansion may place substantial strain on our managerial, operational, human and financial resources. When we enter into a new market, we usually need to recruit local workforce to join the project company and operate the facilities. With our continuous expansion into other regions in the PRC, our management may not be able to manage and control our business activities as efficiently as they did in the past and we may need to recruit and allocate more senior management members to support our business

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expansion. We cannot assure you that we will be able to recruit sufficient and competent local workforce or senior management members in a timely manner, or at all. In addition, we may not have sufficient working capital or financing to take up new business opportunities and may not be able to recover the costs incurred in developing our new projects or realise their projected benefits. The lack of sufficient managerial, operational, human and financial resources could jeopardise our growth plan which in turn could materially and adversely affect our business and prospects.

Our acquisition strategy is subject to a number of risks.

We intend to pursue a targeted acquisition strategy to strengthen our market position and enhance our competitiveness in the PRC wastewater treatment and water supply industries. The implementation of our acquisition strategy is subject to a number of risks, including (i) a failure to identify suitable acquisition targets; (ii) a failure to identify certain defects or risks in the acquired business during the due diligence process; (iii) a failure to integrate the acquired business and its personnel into our existing business; (iv) higher costs of integration than we may anticipate; (v) any delay or failure to realise the expected benefits of the acquired business or its products or services; (vi) any failure to obtain the necessary financing, (vii) difficulties in obtaining government and other regulatory approvals; (viii) changes in market circumstances and demands; and (ix) diversion of our management's time and attention from other business concerns. As at the Latest Practicable Date, we had not entered into any letter of intent or agreement for any future acquisition and had not identified any definitive acquisition target for expansion purposes except for the potential cooperation opportunities with three potential partners in Shandong as disclosed in "Business — Potential Cooperation Opportunities" and certain companies which our Controlling Shareholders are interested in and which we have been granted a right to acquire as stipulated in the Non-competition Agreements.

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

Our expansion into the raw water supply business may not be successful.

We currently engage in one raw water supply project under a BOT project model. The concession agreement for this project was signed in April 2013. According to the concession agreement, we are responsible for constructing the Emin (Bingdi, Liaoyang) Industrial Park Water Supply Works (Phase 1) Project and for supplying raw water to the Emin (Bingdi, Liaoyang) Industrial Park for industrial and irrigation use. As the construction and operational requirements for a reservoir are largely different from the requirements for our wastewater treatment and tap water supply facilities, we may not be able to draw upon our previous experience to effectively construct and operate the raw water supply project. We cannot

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assure you that the project will be profitable or will allow us to realise our investments. The investment amount in the raw water supply project is up to RMB400 million. We expect to fund at least 20% of the investment in this raw water supply project through our internal resources with the remaining being financed through bank borrowings and/or corporate bonds. If we fail in the construction or operation of the raw water supply project, our business, financial condition, results of operations and prospects may be materially and adversely affected.

Our possible expansion into the municipal waste disposal, waste incineration and power generation, wastewater reclamation and chemical waste disposal businesses may not be successful.

We plan to expand our municipal waste disposal business and plan to engage in the waste incineration and power generation, wastewater reclamation and chemical waste disposal businesses. We acquired Beijing Clean in January 2014. Yuxi Clean, a wholly-owned subsidiary of Beijing Clean, operates a municipal waste landfill under an O&M project model and has contractually secured a waste incineration and power generation project under a BOT project model. The construction with respect to this project is expected to commence in July 2015. We plan to cooperate with a potential partner to engage in the chemical waste disposal business. As at the Latest Practicable Date, we had not secured any chemical waste disposal or wastewater reclamation projects. We may face significant competition in conducting these new businesses. For example, while the waste incineration and power generation industry in the PRC is relatively fragmented and differs by region, the majority of the market share is still occupied by a small number of major national players. Moreover, we may not be able to maintain the profitability of the waste incineration and power generation project, as the electricity price we are able to charge in connection with this project is subject to the national standard unit price of RMB0.65/kWh. See “Regulatory Environment — Business Qualifications and License — Pricing Policy for Waste Incineration and Power”. In the event that our costs of generating electricity are higher than such standard price, our financial performance may be materially and adversely affected.

Our management will need time to gain experience operating municipal waste disposal, waste incineration and power generation, wastewater reclamation and chemical waste disposal projects, and they may not be able to effectively manage such projects. We may also not be able to procure or employ a sufficient number of technicians to operate the equipment necessary for our municipal waste disposal, waste incineration and power generation, wastewater reclamation and chemical waste disposal projects. In addition, as the environmental laws and regulations applicable to the pollution discharge and technical standards of these proposed projects are different from those of our wastewater treatment projects, we may incur additional costs to comply with these legal requirements. Furthermore we also face risks of failing to integrate the acquired businesses into our existing operations. See “Risk Factors — Risks Relating to Our Business and Industry — Our acquisition strategy is subject to a number of risks”. If the municipal waste disposal, waste incineration and power generation, wastewater reclamation and chemical waste disposal businesses are not able to develop successfully and do not become as profitable as expected, our business, financial condition, results of operations and prospects may be materially and adversely affected.

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Our expansion into the membrane manufacturing business may not be successful.

During the Track Record Period, the membrane equipment we sold was procured from our second largest Controlling Shareholder, Beijing OriginWater. In July 2014, we established our Membrane Production Plant in order to engage in the membrane manufacturing business. The Membrane Production Plant was in trial operation as at the Latest Practicable Date. During the trial operation period, we are permitted to manufacture membrane products for testing use but are not legally permitted to sell membrane products to external parties. We intend to rely on the membrane equipment we manufacture to conduct the majority of our equipment sales business once the Membrane Production Plant commences commercial operation. We believe that the designed capacity of the Membrane Production Plant will be able to meet our needs for at least five years. However, since we have no prior experience in manufacturing membranes, our assumptions and judgments relating to the costs of our membrane manufacturing are yet to be tested and could prove to be incorrect. We also face risks of cost fluctuation with respect to the materials specifically needed for membrane manufacturing. Moreover, the development of our membrane manufacturing business may strain our managerial, operational, human and financial resources. We cannot assure you that the membrane equipment we produce will be accepted by customers, and if it is not, we may not be able to realise our investment in the Membrane Production Plant, and our business, financial condition, results of operations and prospects could be materially and adversely affected.

During the Track Record Period, we obtained most of our concession projects without undergoing any competitive tender process required by the Tender Measures and such concession projects may be deemed invalid as a result.

During the Track Record Period, except for the Datunhai Wastewater Treatment Project which we obtained through a competitive tender process, all of our other concession projects were obtained through competitive negotiation.

As advised by our PRC legal adviser, both the Tender Measures, which require local governments to adopt a competitive tender process to award public utility projects (including wastewater treatment, water supply and waste incineration and power generation projects), and the Government Procurement Law, which permits local governments to adopt a competitive negotiation process to award public utility projects, may be applied when local governments select investors and operators for wastewater treatment, water supply and waste incineration and power generation projects. See “Business — Concession Projects — Project Management Process — Competitive negotiation or competitive tender”. There is no explicit legal guidance regarding which law or regulation must be applied by local governments in connection with their procurement of services and/or construction, and there is uncertainty as to which law or regulation will be applied by the competent authority in determining the legality of the concession projects awarded to us without undergoing a competitive tender process.

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We cannot assure you that our concession projects will not be deemed invalid or our concession agreements will not be terminated by any competent authority in the future on the basis that we had obtained such projects without undergoing a competitive tender process or that no penalties will be imposed on us. Furthermore, we cannot assure you that future actions or interpretation of the Tender Measures by any PRC regulatory authority will not pose a material risk to the operation of our concession projects that we obtained without undergoing a competitive tender process. All of these could materially and adversely affect our business, financial condition and results of operations.

Our inability to maintain our competitiveness could adversely affect our financial performance.

The wastewater treatment and tap water supply services industries in the PRC are highly fragmented and competitive, with a large number of service providers throughout the country. We compete primarily with state-owned, privately-owned and foreign wastewater treatment and water supply companies in the PRC and new entrants to the market, some of which may have a lower cost structure, such as lower capital expenditures or financing costs, or greater access to customers. They may also possess more advanced water treatment techniques than us or have stronger access to capital than we do. We cannot assure you that we will be able to compete successfully with our competitors in our existing markets.

In addition, when we enter into a new market, we may face intense competition from other wastewater treatment and water supply facilities operators with an established presence in the relevant geographical areas and from other operators with similar expansion targets. We cannot assure you that we will be able to successfully compete to expand into other parts of the PRC or overseas. Failure to maintain our competitiveness and any increase in competition may materially and adversely affect our business, financial condition, results of operations and prospects.

We have a concentrated customer portfolio, and any default in payment by our major customers could have a material and adverse effect on our business, financial condition, results of operations and prospects.

Our five largest customers for the years ended 31 December 2012, 2013 and 2014 accounted for approximately 34.8%, 63.7% and 62.6% of our revenue during the same periods, respectively, and our largest customer for the years ended 31 December 2012, 2013 and 2014 accounted for approximately 10.6%, 37.5% and 21.5% of our revenue during the same periods, respectively. If our major customers substantially default in payment or terminate their business relationships with us, we cannot assure you that we would be able to obtain compensation or secure new projects in a timely manner or at all, which could materially and adversely affect our business, financial condition, results of operations and prospects.

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

Most of our customers are local governments. To the extent that our projects are funded by local governments, they may be subject to delays or changes as a result of changes in the local governments' budgets or for other policy considerations. Local government spending on infrastructure and other construction projects has historically been, and will continue to be, cyclical in nature and vulnerable to fluctuations in the PRC economy and changes in local government policies. As a result, we have significant exposure to risks associated with contracting with local governments in the PRC. Changes in governmental budgets and policies relating to our projects and any deterioration in the liquidity and cash flow of the local governments which are our customers could result in delays in project commencement or completion, adverse changes to such projects or a withholding of, or delay in, payment to us.

Furthermore, in some circumstances, the local governments may require us to change our construction methods, equipment or other performance terms; direct us to reconfigure our designs or purchase specific equipment; or require us to undertake additional obligations or change other contractual terms, thereby subjecting us to additional costs. In addition, resolution of any disagreement with respect to such changes may be time-consuming and may cause us to incur additional costs.

Moreover, any disputes with governmental entities and other public organisations could potentially lead to contract termination if unresolved 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 and organisations may be delayed as a result. Such entities and organisations may claim sovereign immunity as a defence to any claims we may make against them. If a government entity or other public organisation terminates a contract with us, our projects could be reduced, our business plans may need to be modified and our business and financial performance may be materially and adversely affected.

We have a concentrated supplier portfolio and if our relationships with these suppliers deteriorate, our business, financial condition, results of operations and prospects could be materially and adversely affected.

For the years ended 31 December 2012, 2013 and 2014, purchases from our five largest suppliers accounted for 29.0%, 73.9% and 67.0% of our total purchases during the same years, respectively, and purchases from our largest suppliers accounted for 8.4%, 54.3% and 55.0% of our total purchases during the same years, respectively. Most of our major suppliers are construction companies which provide construction services for our wastewater treatment and water supply projects. If our relationships with our major suppliers deteriorate for any reason, we may be forced to terminate our agreements with them and may not be able to find new suppliers which could provide services of a comparable quality and on comparable terms in a timely manner, or at all. If we fail to find such new suppliers, we may not be able to

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complete the construction of our projects on schedule or at all, which could result in us failing to meet existing and future customer demand and losing customers and market share. As a consequence, our business, financial condition, results of operations and prospects could be materially and adversely affected.

Our BOT/TOT and BOO/TOO projects are subject to construction and operational risks, including any accidents, disruptions or delays which may occur during the construction and operation periods.

For the years ended 31 December 2012, 2013 and 2014, revenue derived from our BOT/TOT and BOO/TOO wastewater treatment and water supply projects accounted for approximately 82.9%, 72.5%, and 54.5% of our total revenue, respectively. Returns on our initial investment in each BOT/TOT or BOO/TOO project are generated from the proceeds from our operation of the facilities over a concession period, which is usually 30 years. During the construction and operation period, risks which can neither be accurately predicted nor evaluated at the beginning of the projects may later emerge and cause our actual revenue, construction costs and operational costs to deviate significantly from our initial projections. The construction and operation of our projects, including any new project that we undertake, could be adversely affected by a number of factors, including, but not limited to:

- the design institutes and/or contractors hired by us may not be able to complete the design, construction or installation work for our projects on time, within budget or to the specifications or standards set out in our contracts with them;
- the local governments may refuse to accept, or may delay the acceptance of, our constructed facilities due to disputes with us with respect to the quality of the constructed facilities;
- the failure or malfunction of the equipment installed in our projects could result in our failure to treat wastewater or raw water to the applicable standards, which could in turn result in environmental risks or risks of default under the relevant concession agreements;
- shortages of, and price increases in, equipment or materials;
- labour shortages or disputes;
- industrial accidents during the construction or operation of our wastewater treatment and water supply facilities;
- delays due to factors such as fires, earthquakes or other natural disasters; and
- other unanticipated circumstances or cost increases.

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If we are not able to reach an agreement with local governments to obtain sufficient compensation for our losses or are not able to timely mitigate the influences of these factors on our business, our business, financial condition, results of operations and prospects could be materially and adversely affected.

We receive payment for our BOT projects during the operational phase only, and for our BT projects, we only receive repurchase fees upon repurchase of the constructed facilities. As a result, we may not always be able to match cash inflows from our operations with our costs incurred during the construction phase of our BOT and BT projects, which may result in a liquidity gap requiring external financing.

As at the Latest Practicable Date, all of our BOT projects in operation were wastewater treatment projects. For each of these projects, we only receive regular payments, usually half-yearly, from local governments after the commencement of commercial operation of these facilities. For our BT project, we receive repurchase fees in instalments upon repurchase of the constructed projects. We generally do not receive payments from our customers and there is generally no cash inflow during the construction phase of our BOT or BT projects. However, we need to incur significant costs during the construction phase of such projects. As a result, we may not always be able to match our cash inflows from our operations with our costs, which may result in a liquidity gap requiring us to resort to further bank borrowings to fund our project development and day-to-day business operations, which could negatively impact our liquidity. In addition, liquidity shortfalls may also impair our ability to obtain sufficient additional financing on acceptable terms or at all. Any negative pressure on our liquidity or any mismatch between our cash inflows and cash outflows could have a material adverse effect on our business, financial condition and results of operations.

Failure to reach an agreement with our customers on an amount of fees or any significant delay in payment by our customers may lead to lower profitability or losses on our BT projects.

For our BT projects, our customers repurchase the facilities and pay us the repurchase fees upon completion of construction. Our BT agreements generally stipulate a formula for determining the repurchase fees, which normally include the variable construction costs and a fixed percentage for interest and investment gains. Both the interest and investment gains are calculated based on the construction costs. When construction is completed, we negotiate and reach an agreement with our customers on the amount of construction costs reasonably incurred and the corresponding interest and investment gains, which are examined and audited by an independent cost consultant jointly appointed by our customer and us. As construction costs are not fixed under our BT agreements, there is a potential risk that certain construction costs actually incurred by us may not be recognised by the independent cost consultant and our customer. Because both interest and investment gains are calculated based on the construction costs recognised, any discrepancy between the actual construction costs and the recognised amount could affect the amount of interest and investment gains we receive. In such situation, additional time and effort may be required for us to discuss and negotiate with our customers on the final amount to be recognised.

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We cannot assure you that we will always be able to reach agreements with our customers on amounts to be paid to us or that we will receive payments from our customers in a timely manner. Considering the substantial financial investment required for our BT projects, if the final amounts we agree upon with our customers are insufficient to compensate us for our construction costs and generate interest and investment gains as expected, or if payment by our customers is significantly delayed, we may be subject to lower profitability or may even be required to recognise losses, which may have a material and adverse effect on our business, financial condition, results of operations and prospects.

We are exposed to credit and liquidity risks with respect to the payment structure under our project agreements, and payment delays or defaults by our customers may negatively affect our business, financial condition, results of operations and prospects.

We are subject to the credit risks of our customers and our profitability and cash flow are dependent on timely payments by our customers for the products and services we provide to them. Our trade receivables turnover days as at 31 December 2012, 2013 and 2014 were 167 days, 114 days and 199 days, respectively. In general, we specify a credit period of 90 days or less to our customers. Our turnover days during the Track Record Period exceeded our stated credit period. As at 31 December 2012, 2013 and 2014, RMB175.3 million, RMB178.5 million and RMB374.7 million of our trade receivables were past due but not impaired, respectively. See “Financial information — Liquidity and Capital Resources — Trade and Other Receivables”.

We cannot assure you that we will be able to collect all or any of our trade receivables within the period prescribed in our purchase agreements or project agreements. If any of our customers face unexpected situations, including, but not limited to, financial difficulties caused by any economic downturn or fiscal constraints, we may not be able to receive full or any payment of uncollected sums or enforce any judgment debts against such customers and we may need to make greater provisions for receivables, which could materially and adversely affect our business, liquidity, financial condition, results of operations and prospects.

Our construction company customers may not have sufficient funds to settle our fees.

For the years ended 31 December 2012, 2013 and 2014, our trade receivables aged over one year were RMB32.9 million, RMB69.3 million and RMB187.5 million, respectively. See “Financial Information — Liquidity and Financial Resources — Trade and other receivables”. During the Track Record Period, the majority of our trade receivables aged over one year related to our equipment and system integration service fees which were primarily owed by our construction company customers. Such customers were mainly engaged by local governments and awardees of concession projects to construct wastewater treatment and water supply projects. During the Track Record Period, our construction company customers usually settled our equipment and system integration service fees after they have received the construction fees from the project owners, which are in instalments based on the progress of project construction.

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If the project owners are local governments, the settlement of our fees by our construction company customers may be indirectly affected by the financial resources of the local governments. If the local governments encounter financial difficulties in settling the construction fees of our construction company customers, our customers may delay the settlement of our equipment and system integration service fees. We cannot assure you that our construction company customers will always have sufficient funds for payment to us, and any delay in the settlement of our fees could materially and adversely affect our business, financial condition, results of operations and prospects.

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

We are required to make substantial financial investments during the initial phases of our BOT/TOT, BOO/TOO and BT projects and we have relied on bank loans to finance a portion of such investments during the Track Record Period. For the years ended 31 December 2012, 2013 and 2014, our finance costs — net were RMB21.4 million, RMB23.3 million and RMB31.5 million, respectively. As at 31 December 2012, 2013 and 2014, our net debt to equity ratio was 25.5%, N/A and 19.4%, respectively.

We expect to continue to utilise bank loans to finance a portion of our investments in our projects. As our bank loans are principally denominated in Renminbi, the interest rates on our loans are primarily affected by the benchmark interest rates set by the PBOC. In the PRC, the PBOC regulates the lending rates and reserve requirement ratios for commercial banks. Between 2012 and the Latest Practicable Date, the PBOC revised the benchmark one-year lending rate and adjusted the reserve requirement ratio for commercial banks several times. The reserve requirement refers to the amount of funds that banks must hold in reserve with the PBOC against deposits made by their customers. Increases in the bank reserve requirement ratios may negatively impact the amount of funds available to commercial banks in the PRC to lend to businesses, including our Company. The benchmark one-year lending rate is currently 5.35%, effective 1 March 2015. The current reserve requirement ratio, which took effect on 20 April 2015, ranges from 15.0% to 18.5%. Accordingly, changes in the interest rate and reserve requirement ratios for banks have affected, and will continue to affect, our finance costs and profitability. We cannot assure you that the PBOC will not raise lending rates or reserve requirement ratios in the future, which may increase our finance costs and thereby materially and adversely affect our business, financial condition, results of operations and prospects.

Failure to appropriately treat wastewater or supply tap water due to excessive pollution levels in the wastewater and raw water to be treated by our treatment facilities, or for any other reason, may adversely affect our earnings and may damage our facilities and reputation.

Our wastewater treatment and tap water supply facilities are built to treat wastewater and raw water to specified quality standards. The quality of our treated wastewater and supplied tap water depends on the normal operation of our facilities. We are subject to risks of unknown or undiscovered defects or compatibility problems with our equipment. We cannot assure you

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that our staff will always be able to timely discover and repair malfunctioning equipment or any other problems with our treatment process or facilities. In these instances, our facilities may not be able to treat wastewater or raw water in compliance with the relevant regulatory and contractual standards, which could result in us being subject to claims from our customers or governmental sanctions, and could lead to the suspension of our operations pending rectification as well as reputational damage. Such excessive pollution could also damage or accelerate the deterioration of our wastewater treatment or water supply facilities. The occurrence of any of the foregoing could have a material and adverse effect on our business, financial condition, results of operations and prospects.

In addition, the incoming wastewater or raw water to be treated by our facilities may contain pollutants exceeding the types and quantity we contemplated during the design and construction of the facilities, due to, among other things, excessive discharge of pollutants, oil spills or other events beyond our control. Any excessive pollution levels of the wastewater or raw water coming into our facilities may adversely affect the operating costs and earnings of such facilities due to the higher costs of treating the wastewater or raw water to meet the quality standards specified in the agreements with our customers. There may also be disagreements as to the extent to which the incoming wastewater or raw water is considered to include levels of pollutants exceeding those set out in our agreements. Moreover, should the types or amounts of pollutants in the wastewater or raw water increase significantly, we could be held liable for exposing end users to dangerous substances or other environmental damage. Any of the foregoing could subject us to liability and damage our reputation, which could materially and adversely affect our business, financial condition, results of operations and prospects.

Our business, results of operations and financial condition may be adversely affected if there is any significant downtime or decrease in utilisation of our wastewater treatment or water supply facilities or if our facilities fail to achieve the expected levels of utilisation due to insufficient incoming wastewater or raw water.

Our treatment facilities are subject to normal wear and tear in the course of construction and operation. As a result, our facilities may require extended downtime for repairs and maintenance. However, if the time and cost required for such repairs and maintenance exceeds our expectations, our operations may be affected for a period longer than anticipated and our revenue from the relevant project may be less than the original estimate. In addition, if any extraordinary or extensive repairs to our facilities or equipment are required due to any significant or catastrophic event or otherwise, our facilities could require significant downtime during which they would not be able to treat wastewater or supply raw/tap water as required under our concession agreements. Any significant downtime of our facilities may also have far-reaching consequences to the communities and industries around them, which in turn, could cause our customers to terminate their agreements with us or subject us to claims for damages.

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In addition, each of our projects has been or will be built to a specified designed capacity in accordance with the terms of the relevant agreements with our customers. As at 31 December 2012, 2013 and 2014, the average utilisation rate of our wastewater treatment facilities was 42.3%, 46.1% and 64.3% and the average utilisation rate of our water supply facilities was 63.0%, 72.4% and 77.3%, respectively. The utilisation rates of our wastewater treatment and water supply facilities depend on a number of factors, including the local population size, the level of urbanisation, access to a pipeline network and the general economic conditions in the areas serviced by the relevant facilities. Our decision to enter into a project agreement may depend on our expectation of future increases in the quantity of wastewater to be treated or tap water to be supplied, which may not be realised. Moreover, in most of our wastewater treatment projects, we are entitled to charge fees based on a guaranteed minimum volume if the utilised capacity is below such guaranteed minimum volume. However, we cannot assure you that our customers will not request us to amend such threshold if there is a significant reduction in demand for our services or if the incoming wastewater is significantly below the guaranteed level. Any reduction in the guaranteed minimum volume of wastewater to be treated could have a material and adverse effect on our business, financial condition, results of operations and prospects.

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

Our results of operations and profitability are affected by changes in tax rates in the PRC. Most of our subsidiaries enjoy preferential tax treatment. See “Financial Information — Significant Factors Affecting Our Results of Operations and Financial Condition — Taxation” for details. For the years ended 31 December 2012, 2013 and 2014, our effective tax rates, calculated as income tax expense divided by profit before income tax, were 21.2%, 20.4% and 16.9%, respectively. Our effective tax rates may change from year to year due to the existence or expiration of any preferential tax treatment.

We cannot assure you that the PRC policies with respect to the preferential tax treatment we currently enjoy will not be unfavourably changed or discontinued, or that the approval for such preferential tax treatment will be granted to us in a timely manner, or at all. The termination or expiration of our preferential tax treatment or the imposition of additional taxes on us may lead to an increase in our expenses and may have a material adverse effect on our business, financial condition, results of operations and prospects.

Any subsidy currently or previously available to us could be reduced or discontinued.

During the Track Record Period, we received subsidies granted by the PRC Government as financial incentives to encourage our development and investment in the PRC wastewater treatment and water supply industries. For the years ended 31 December 2012, 2013 and 2014, we recorded government grants of approximately RMB6.5 million, RMB67.9 million and RMB34.9 million, respectively.

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Although our concession agreements usually state that the local government will assist us in obtaining government subsidies, we cannot predict or guarantee the amount of subsidies to be granted for any specific project. If the relevant governments deduct or even cancel the current subsidies or refuse to grant any subsidies for any future projects, our revenue from our wastewater treatment and water supply projects could be adversely affected.

We may fail to adequately protect our intellectual property rights or could face claims for infringement of the intellectual property rights of others.

We rely on patents and trademarks to protect our proprietary rights. As at the Latest Practicable Date, we had nine registered patents, five patent applications, five licensed patents, seven trademark applications and one registered domain name in the PRC. See “Appendix V — Statutory and General Information — B. Further Information about Our Business — 2. Intellectual Property Rights — (b) Patents”. Monitoring unauthorised use of our intellectual property is difficult, and we cannot be certain that the steps we have taken will prevent unauthorised use of our technologies. We generally do not enter into confidentiality agreements with our personnel. If we fail to protect our intellectual property rights adequately, our competitors may gain access to our technologies.

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

Moreover, as we expand our business and increase our geographical coverage, third parties may assert that our technologies or techniques infringe upon their intellectual property rights. We cannot assure you that we will not face any claims or litigation for infringement of the intellectual property rights of others. These claims or litigation could adversely affect our relationships with current or future customers, divert management attention and resources and result in substantial expenses, thereby adversely affecting our business, financial condition, results of operations and prospects.

Because we are not the owner of certain of our membrane manufacturing and application technologies, we may be unable to continuously use or commercialise these technologies in the future.

As at the Latest Practicable Date, we had applied for the patent registration of five technologies in relation to membrane manufacturing and application. As at the Latest Practicable Date, the patent applications were under review by the SIPO. We cannot assure you that we will successfully obtain the patent rights in connection with these applications. Apart from the five technologies, we have been licensed by Beijing OriginWater to use one patented technology owned by them for our membrane application business. See “Connected Transactions”.

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Although we have a license to use the patent owned by Beijing OriginWater on an exclusive basis, we cannot assure you that Beijing OriginWater will comply with the licensing agreement and will not license the patent to a third party. If Beijing OriginWater breaches the licensing agreement, such as by licensing the patent to a third party, we may need to raise claims or initiate litigation to protect our exclusive rights, which could be time consuming and expensive and could divert resources from our business regardless of whether or not the disputes are decided in our favour. Furthermore, we cannot assure you that Beijing OriginWater's proprietary rights to the patent will be enforceable. If Beijing OriginWater is subject to disputes initiated by a third party claiming infringement of the patent, we may not be able to utilise the patent temporarily, during the disputes, or if Beijing OriginWater loses the proprietary rights, at all. As a result, our business, financial condition, results of operations and prospects may be materially and adversely affected.

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

For the years ended 31 December 2012, 2013 and 2014, we recorded negative operating cash flow of approximately RMB91.7 million, RMB20.2 million and RMB542.4 million, respectively, mainly due to the accounting treatment of our BOT/TOT project models. For our BOT/TOT projects, we incur significant capital expenditures to construct or acquire the water facilities. We are compensated for our construction or acquisition costs when we receive tariff payments during the operation of the water facilities. The average investment payback period for our wastewater treatment projects under BOT/TOT or BOO/TOO models is 12 years, while the average investment payback period for our water supply projects under BOT/TOT or BOO models is six years. See "Financial Information — Liquidity and Capital Resources — Cash flow — Cash flows used in operating activities" for details. In addition to the reason above, our negative net cash flows from operating activities increased substantially to RMB542.4 million in 2014 because our revenue derived from our BT projects increased substantially in 2014, resulting in an increase in trade receivables.

We cannot assure you that we will be able to record positive operating cash flows in the future. We may need to resort to additional financing activities to fund our operations should our future operating activities be unable to generate sufficient cash flows. We cannot assure you that we will be able to obtain sufficient cash on terms acceptable to us from external sources or at all. If we incur substantial increases in financing costs arising from additional financing activities or if we cannot obtain sufficient cash, our business, financial condition, results of operations and prospects may be materially and adversely affected.

We are restricted by covenants in our financing agreements.

During the Track Record Period, we relied heavily on bank borrowings to finance the acquisition and construction of our projects. As at 31 December 2012, 2013 and 2014, our unsettled bank borrowings were RMB473.9 million, RMB612.2 million and RMB733.9 million, respectively. See "Financial Information — Indebtedness."

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

Our loan agreements may also include financial covenants determined in accordance with PRC GAAP, such as the obligations for Dali Water to ensure that (i) its gearing ratio does not exceed 80% of its audited net assets, (ii) the amount of its guarantee does not exceed either its audited net assets or the prescribed amount under its articles of association, and (iii) its interest coverage ratio and account receivables turnover rate do not fall below 1.9 times and 2.1 times, respectively. In the event that we fail to comply with the foregoing financial covenants, the lending banks have the right to, among other things, (i) require us to immediately repay the loans and the accrued interest and indemnify them for any loss they may suffer therefrom and (ii) terminate our loan agreements. Furthermore, we may be required to provide additional guarantees upon the lending banks' request if any changes in our guarantor adversely affects the guarantee granted by the guarantor to the lending banks.

In June 2014, we issued corporate bonds in the amount of RMB400 million, which will mature in three years with an interest rate of 7.7% per annum. We are restricted by the covenants of the underwriting agreement in connection with such issue and are required to notify the investors in advance of any proposed actions which may materially affect our ability to issue new bonds or repay the issued bonds. See "Financial Information — Indebtedness".

We cannot assure you that we will be able to obtain the lending banks' or the bond underwriter's consent for any of the restricted activities. If we engage in such activities and fail to obtain such consent, our business may be impeded. In addition, if we breach the restrictive covenants, make any misrepresentations or commit any other violation under our financing or underwriting agreements, we may trigger an event of default, which in turn could lead to an acceleration of our indebtedness or require us to compensate the lending banks and bond underwriter for their losses, and as a consequence, our business, financial condition, results of operations and prospects could be materially and adversely affected.

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We depend on third parties for the supply of equipment, raw materials and electricity and the provision of design, construction, installation, testing and other services.

Our business significantly relies on the steady supply of various goods and services from local suppliers, such as the supply of electricity, equipment and raw materials, as well as the provision of design, construction, installation, testing, transportation and other services. We currently cooperate with local suppliers in the PRC. For the years ended 31 December 2012, 2013 and 2014, purchases from our five largest suppliers amounted to RMB109.1 million, RMB523.5 million and RMB592.8 million, respectively, representing 29.0%, 73.9% and 67.0% of our total purchases, respectively. If any of our key suppliers or contractors for a particular project is unable to continue providing the products or services we need at prices and on terms and conditions we consider acceptable, we may need to obtain these items from other suppliers. We cannot assure you that we will be able to locate replacements or find new qualified suppliers in a timely manner or at all. Failure to find suitable replacements could jeopardise or cause a delay in the delivery of our supplies, which could materially and adversely affect our business, financial condition, results of operations and prospects.

In addition, our business is significantly affected by the availability, cost and quality of the equipment and raw materials used to construct, install, operate and maintain our wastewater treatment and water supply facilities. If for any reason our primary suppliers of equipment or raw materials reduce or discontinue their delivery of such equipment or materials to us in the quantities we need or provide us with equipment or raw materials that do not meet our specifications or are on unacceptable terms, we may not be able to meet our equipment or raw material requirements and may face disruptions to our construction schedules and operations, which could materially and adversely impact our business, financial condition, results of operations and prospects.

Moreover, the operation of our wastewater treatment and water supply facilities also depends on the adequate, timely and continuous supply of electricity. We currently obtain most of our electricity from public electricity networks. Many cities and provinces in the PRC have suffered serious power shortages in recent years. Many of the regional grids do not have sufficient power-generating capacity to fully satisfy the increased demand for electricity driven by continued economic growth. Furthermore, our wastewater treatment and water supply facilities are generally located in the outskirts of developed areas of a city or a county with limited power supply facilities, which further increases the possibility of not having an adequate and timely electricity supply. Interruption to the power supply to our facilities could hamper our ability to adequately treat incoming wastewater or raw water. As a consequence, our business, financial condition, results of operations, prospects and reputation could be materially and adversely affected.

Furthermore, we depend in part on the availability of qualified design institutes and independent contractors for the design, construction, installation and testing of our wastewater treatment and water supply facilities. We do not have any direct control over the timing or quality of services or supplies provided by these institutes and contractors. We cannot assure you that such skilled institutes and contractors will continue to be available at reasonable rates in the areas in which we conduct our operations, or at all, and we may be exposed to risks

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relating to the quality of their services and supplies. An institute or contractor who has performed satisfactorily in one area may not be able to perform in the same manner in another area. If we are unable to find qualified design institutes and independent contractors to undertake the design and construction work for our projects, our business, financial condition, results of operations and prospects could be materially and adversely affected.

Our customers may make claims against us and/or terminate our services in whole or in part should we fail to meet the requirements in the relevant agreements or fully satisfy their other requirements and expectations.

The development and/or operation of our wastewater treatment and water supply projects and our equipment sales business are subject to the terms of the agreements with our customers.

Our customers may make claims against us or terminate the relevant agreements with or without compensation if any of the following events occur:

- we fail to complete construction of the facilities according to the specifications in the agreements for our BOT, BOO, BT and EPC projects;
- the treated wastewater discharged or tap water supplied under our BOT/TOT or BOO/TOO projects fails to meet the contractual or regulatory requirements;
- we fail to provide operation and management services as prescribed in the O&M agreements; or
- there is a delay in the delivery of equipment sold by us or the quality of such equipment does not comply with the requirements under the relevant agreements.

Such failures may arise as a result of unsatisfactory project/equipment design or workmanship, staff turnover, human error, untimely delivery of services, default by our contractors or misinterpretation of, or failure to adhere to, regulations and procedures by us or our contractors, some of which may be beyond our control. If we suffer claims or if our services are terminated by our customers due to our breach of the relevant agreements, our business, financial condition, results of operations and prospects could be materially and adversely affected.

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

We maintain insurance for our employees covering accident claims arising during the course of the construction and operation of our projects. We do not maintain other insurance for the construction and operation of our projects or the properties or raw materials used in our operations. During the Track Record Period and up to the Latest Practicable Date, no material workers' compensation claims, third party liability claims, accident compensation claims or other kinds of claims had been filed against us. We cannot assure you that such claims will not be brought against us in the future.

In addition, we cannot predict the continued availability of insurance at acceptable premium levels or at all, and as such, our insurance policies may not continue to be available at economically acceptable premiums. Moreover, we may not be able to obtain certain types of insurance at a reasonable cost or at all, such as insurance covering losses from acts of war, terrorism or natural catastrophes, which may be unavailable and/or cost prohibitive.

Furthermore, we cannot assure you that our insurance policies will be sufficient to cover all risks associated with our business and operations. We may be subject to liabilities against which we are not insured adequately or at all or liabilities against which we cannot insure. Should significant property damage or personal injury occur to our facilities or to our employees due to accidents, natural disasters or other events, our insurance policies may not adequately cover the losses that we incur, potentially leading to a loss of assets, lawsuits, employee compensation obligations or other forms of economic loss, which may have a material adverse effect on our business, financial condition and results of operations.

We are dependent on our key management team and qualified personnel.

The extensive industrial knowledge and operational expertise of our management team has contributed to our results-driven culture which emphasises quality, efficiency and market responsiveness. 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 timely and suitable replacement could adversely affect our operations and as a result, our revenue and profit.

Due to the specialised nature of our work, there is a limited supply of adequately qualified technical specialists, including engineers. Our continued success and the implementation of our expansion plans depend largely on our ability to attract and retain high quality personnel, including executive officers, business development personnel and project managers, who have the necessary and required experience and expertise to conduct our business. If we are unable to attract and retain a sufficient number of suitably skilled and qualified technical specialists, our business, financial condition, results of operations and prospects could be materially and adversely affected.

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RISKS RELATING TO CONDUCTING BUSINESS IN THE PRC

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

Our business and operations are conducted in the PRC and governed by PRC laws and regulations. The PRC legal system is a civil law system based on written statutes and their interpretations in terms of application and enforcement by relevant legislative and judicial authorities, various administrative regulations and decrees. There is only a limited volume of published court decisions which may be cited for reference and in any case, unlike in the common law system, prior cases have limited precedential value in deciding subsequent cases in the civil law legal system. Since the late 1970s, the PRC Government has committed to building up a socialistic legal system to regulate business practices and the overall economic order of the country. The PRC has made significant progress in the promulgation of laws and regulations dealing with business and commercial affairs of various participants of the economy, involving shareholders rights, foreign investment, corporate organization and governance, commercial transactions, taxation and trade. However, the PRC has not developed a fully-integrated legal system, and recently-enacted laws and regulations may not sufficiently cover all aspects of economic activity in the PRC. As many of these laws and regulations are relatively new, and given the limited volume of published decisions and the involvement of different enforcement bodies of the relevant laws and regulations and the non-binding nature of prior court decisions and administrative rulings, the interpretation and enforcement of these laws and regulations involve significant uncertainties and may not be as consistent and predictable as in other jurisdictions.

You may experience difficulty in effecting service of legal process, enforcing foreign judgments or bringing original actions in the PRC based on foreign laws against us and our Directors and senior management.

Our Company is incorporated under the laws of the PRC and substantially all of our assets are located in the PRC. In addition, almost all of our Directors and executive officers reside in the PRC and their personal assets may also be in the PRC. Therefore, investors may encounter difficulties in effecting service of process from outside the PRC upon us or most of our Directors and executive officers. Moreover, it is understood that the enforcement of foreign judgments in the PRC is still subject to uncertainties. A judgment of a court from a foreign jurisdiction may be reciprocally recognised or enforced if the jurisdiction has a corresponding treaty with the PRC or if the judgments of the PRC courts have been recognised before in that jurisdiction, subject to the satisfaction of other requisite requirements. However, recognition and enforcement in the PRC of judgments of certain overseas courts in relation to any matter not subject to a binding jurisdiction provision may be difficult or impossible.

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

The operating businesses of our Group are based in the PRC. As such, the business, financial condition, results of operations and prospects of our Company can be significantly affected by the economic, political, legal and social conditions and developments in the PRC. The PRC economy differs from the economies of most developed countries in many respects, including the extent of government involvement, the level of development, the growth rate, and government control of foreign exchange. Historically, the PRC economy was centrally-planned, with a series of economic plans promulgated and implemented by the PRC Government. Since 1978, the PRC Government has been promoting reforms of its economic and political systems. These reforms have brought about marked economic growth and social progress in the PRC, and the economy of the PRC has shifted gradually from a planned economy towards a market-oriented economy. However, we cannot assure you that the PRC Government will continue to pursue economic reforms. A variety of policies and measures that could be taken by the PRC Government to regulate the economy, including the introduction of measures to control inflation, deflation, or reduce growth, changes in the rates or methods of taxation, or the imposition of additional restrictions on currency conversions and remittances abroad, changes in foreign exchange regulations, taxation and import and export restrictions may have a material and adverse effect on our business, financial condition, results of operations and prospects. Also, many of the economic reforms carried out by the PRC Government are unprecedented or experimental and are expected to be refined and improved over time. Other economic, political, legal and social factors may also lead to further adjustments of the reform measures. This refining and adjustment process may not necessarily have a positive effect on our operations and business development. In addition, while the PRC's economy has experienced significant growth in the last three decades, growth has been uneven across both geographic regions and the various sectors of the economy. Our business may also be affected by the PRC Government's economic, political and social policies on the development of Yunnan province and other provinces, policies in relation to wastewater treatment and water supply, and any changes to the relevant PRC regulations on the wastewater treatment and water supply industries.

Payment of dividends is subject to restrictions under PRC law.

Under PRC law, we may only pay dividends out of distributable profits. Distributable profits are our after-tax profits as determined under PRC GAAP or HKFRS, whichever is lower, less any recovery of accumulated losses and appropriations to statutory and other reserves that we require to make. As a result, we may not have sufficient or any distributable profit to enable us to make dividend distributions to our Shareholders, including periods in which our financial statements indicate we are profitable. Any distributable profit not distributed in a given year is retained and available for distribution in subsequent years.

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Moreover, because the calculation of distributable profits under PRC GAAP is different from the calculation under HKFRS in certain respects, our operating subsidiaries may not have distributable profits as determined under PRC GAAP, even if they have profits for that year as determined under HKFRS, or vice versa. Accordingly, we may not receive sufficient distributions from our subsidiaries. Failure by our operating subsidiaries to pay us dividends could materially and adversely impact our cash flow and ability to make dividend distributions to our Shareholders in the future, including periods in which our financial statements indicate we are profitable.

Dividends from our Company may be subject to PRC taxation.

Under the current PRC tax laws and regulations, non-PRC resident individual holders of H Shares (the “**Non-PRC Resident Individual Holders**”) and non-PRC resident enterprise holders of H Shares (the “**Non-PRC Resident Enterprise Holders**”) are subject to different tax obligations with respect to the dividends paid to them by us or the gains realised upon the sale or other disposition of H Shares.

Pursuant to the Circular on Questions Concerning the Collection of Individual Income Tax following the Repeal of Guo Shui Fa [1993] No. 045 (關於國稅發[1993]045號文件廢止後有關個人所得稅徵管問題的通知) (Guo Shui Han [2011] No. 348) dated 28 June 2011 issued by the SAT, the tax rate applicable to dividends paid to the Non-PRC Resident Individual Holders varies from 5.0% to 20.0% (usually 10.0%) depending on whether there is any applicable tax treaty between the PRC and the jurisdiction in which the Non-PRC Resident Individual Holders reside. The Non-PRC Resident Individual Holders who reside in jurisdictions that have not entered into tax treaties with the PRC are subject to a 20.0% withholding tax on dividends received from us. In addition, under the PRC Individual Income Tax Law (中華人民共和國個人所得稅法) and its implementation regulations, the Non-PRC Resident Individual Holders are subject to individual income tax at a rate of 20.0% on gains realised upon sale or other disposition of H Shares. However, pursuant to the Circular Declaring Individual Income Tax Continues to Be Exempted over Income of Individuals from Transfer of Shares (關於個人轉讓股票所得繼續暫免徵收個人所得稅的通知) issued by Ministry of Finance and the SAT, on 30 March 1998, gains of individuals derived from the transfer of listed shares in enterprises may be exempt from individual income tax. If such tax is collected, the value of such individual holders’ investments in H Shares may be materially and adversely affected.

Under the PRC Enterprise Income Tax Law (中華人民共和國企業所得稅法) and its implementation regulations, a non-PRC resident enterprise is generally subject to enterprise income tax at a rate of 10.0% with respect to its PRC-sourced income, including dividends received from a PRC company and gains derived from the disposition of equity interests in a PRC company, subject to reductions under any special arrangement or applicable treaty between the PRC and the jurisdiction in which the non-PRC resident enterprise resides. Pursuant to a notice promulgated by the SAT, on 6 November 2008, we intend to withhold tax at 10% from dividends payable to the Non-PRC Resident Enterprise Holders (including HKSCC Nominees). Non-PRC resident enterprises that are entitled to be taxed at a reduced rate under an applicable income tax treaty or arrangement will be required to apply to the PRC tax authorities for a refund of any amount withheld in excess of the applicable treaty rate, and

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payable of such refund will be subject to the PRC tax authorities' approval. As the PRC Enterprise Income Tax Law and its implementation rules are relatively new, there are uncertainties as to their interpretation and implementation by the PRC tax authorities, including whether and how enterprise income tax on gains derived upon sale or other disposition of H Shares will be collected from the Non-PRC Resident Enterprise Holders. If such tax is collected in the future, the value of such Non-PRC Resident Enterprise Holders' investments in H Shares may be materially and adversely affected.

We are exposed to foreign exchange rate fluctuations.

We conduct all of our operations in the PRC and our functional currency is Renminbi. The value of the Renminbi against the U.S. dollar and other currencies fluctuates and is affected by, among other thing, changes in PRC and international political and economic conditions and the PRC Government's fiscal, monetary and currency policies. Since 1994, the conversion of Renminbi into foreign currencies, including Hong Kong and U.S. dollars, has been based on rates set by the PBOC, which are set daily based on the previous business day's inter-bank foreign exchange market rates and current exchange rates on the world financial markets. From 1994 to 2005, the official exchange rate for the conversion of Renminbi to U.S. dollars was generally stable. On 21 July 2005, the PRC Government adopted a more flexible managed floating exchange rate system to allow the value of the Renminbi to fluctuate within a regulated band that is based on market supply and demand and reference to a basket of currencies. In August 2008, the Regulations of the People's Republic of China on Foreign Exchange Control (外匯管理條例) was revised to promote the reform of its exchange rate regime. On 19 June 2010, the PBOC announced that the PRC Government would reform the Renminbi exchange rate regime and increase the flexibility of the exchange rate. There can be no assurance that such exchange rate will remain stable against the U.S. dollar or other foreign currencies.

Changes in the value of foreign currencies could affect our Renminbi costs and revenues. Any increased costs or reduced revenues as a result of foreign currency fluctuations could adversely affect our profits and margins. The fluctuation of foreign exchange rates also affects the value of our monetary and other assets and liabilities denominated in foreign currencies. Generally, an appreciation of Renminbi against the U.S. dollar and other relevant foreign currencies could result in a foreign exchange loss for assets denominated in U.S. dollars and other foreign currencies, and a foreign exchange gain for liabilities denominated in U.S. dollars and other foreign currencies. Conversely, a devaluation of Renminbi against the U.S. dollar and other relevant foreign currencies could result in a foreign exchange gain for assets denominated in U.S. dollars and other foreign currencies and a foreign exchange loss for liabilities denominated in U.S. dollars and other foreign currencies.

While the international reaction of Renminbi revaluation has generally been positive, there remains significant international pressure on the PRC Government to adopt an even more flexible currency policy, which could result in a further, and more significant, appreciation of Renminbi against U.S. dollar or other foreign currencies. Further appreciation of Renminbi against these currencies may lead to a decline in the revenues of our overseas operations in the future. Fluctuations in exchange rates may adversely affect the value, converted into U.S. dollars or Hong Kong dollars, of our net assets, earnings and any declared dividends.

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Moreover, we will need to convert part of proceeds denominated in foreign currencies from the Global Offering into Renminbi. The fluctuation in the exchange rate between the Renminbi and Hong Kong dollar and other foreign currencies may have a material and adverse effect on our business, financial condition, results of operations and prospects, and thus your investment.

Government control of currency conversion may adversely affect the value of your investments.

All of our revenue is denominated in Renminbi, which is also our reporting currency. Renminbi is currently not a freely convertible currency. A portion of our cash may be required to be converted into other currencies in order to meet our foreign currency needs, including cash payments on declared dividends, if any, on our H Shares. Under existing foreign exchange regulations of the PRC, following the completion of this Global Offering, we will be able to pay dividends in foreign currencies without prior approval from the SAFE by complying with certain procedural requirements.

However, if the PRC Government were to impose restrictions on access to foreign currencies for current account transactions at its discretion, we might not be able to pay dividends to the holders of our H Shares in foreign currencies. On the other hand, most of the foreign exchange transactions under capital accounts in the PRC continue to be not freely convertible and require the approval of the SAFE. These limitations could affect our ability to obtain foreign currencies through equity financing or to obtain foreign currencies for capital expenditures.

Furthermore, the net proceeds from the Global Offering are expected to be deposited in currencies other than Renminbi until we obtain necessary approvals from relevant PRC regulatory authorities to convert these proceeds into onshore Renminbi. If the net proceeds cannot be converted into onshore Renminbi in a timely manner, our ability to deploy these proceeds efficiently may be affected as we will not be able to invest these proceeds on RMB-denominated assets onshore or deploy them in uses onshore where Renminbi is required, which may have a material and adverse effect on our business, financial condition, results of operations and prospects.

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

The PRC Labour Contract Law and its implementation rules impose more stringent requirements on employers with regard to entering into written employment contracts, hiring temporary employees and dismissing employees. The PRC Labour Contract Law and its implementation rules also establish requirements relating to, among others, minimum wages, severance payments and non-fixed term employment contracts, time limits for probation

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periods as well as duration and the number of times that an employee can be placed on fixed term employment contracts. It also provides that social insurance is required to be paid on behalf of the employees and the employees are entitled to unilaterally terminate the labour contracts if this requirement is not satisfied.

In addition, under the Regulations on Paid Annual Leave for Employees (職工帶薪年休假條例), which also came into effect on 1 January 2008, and its implementation measures, which were promulgated and became effective on 18 September 2008, employees who have served more than one year for an employer are entitled to paid annual leave ranging from five to 15 days, depending on their length of service. Employees who waive such annual leave at the request of employers shall be compensated at a rate of three times of their normal salaries for each waived annual leave day. Such new laws and regulations may increase our labour costs. In addition, certain companies operating in the PRC have experienced labour unrest in 2010 as a result of workers' dissatisfaction with working conditions and remuneration. We cannot assure you that these labour strikes will not affect general labour market conditions or result in changes to labour laws in the PRC, which in turn could adversely affect our business. Any significant increases in our labour costs and future disputes with our employees could nonetheless have a material and adverse effect on our business, financial condition, results of operations and prospects.

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

Any future occurrence of force majeure events, natural disasters or outbreaks of epidemics, including but not limited to those caused by avian influenza or swine influenza, may restrict business activities in the areas affected and adversely affect our business and results of operations. For example, in 2009 and 2013, there were reports of the occurrence of two types of avian influenza in certain regions of the world, including the PRC, where we operate our business. Moreover, the PRC has experienced natural disasters like earthquakes, flood and droughts in the past few years. For example, a magnitude 6.5 earthquake occurred in Ludian, Yunnan in August 2014, which, however, did not cause material damages on our wastewater treatment and water supply facilities in adjacent areas. Any future occurrence of severe natural disasters in the PRC may adversely affect its economy and therefore our business. We cannot assure you that any future occurrence of natural disasters or outbreaks of epidemics, or the measures taken by the PRC Government or other countries in response to such disasters and epidemics, will not seriously disrupt our operations or those of our distributors, which may have an adverse effect on our business, financial condition, results of operations and prospects.

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RISKS RELATING TO THE GLOBAL OFFERING

There has been no prior public market in Hong Kong for our H Shares and their liquidity and market price may be volatile.

Prior to the Global Offering, no public market existed for our H Shares. The initial Offer Price range for our H Shares is the result of negotiations between us and the Sole Global Coordinator, and the Offer Price may differ significantly from the market price for our H Shares following the Global Offering. We have applied to list and deal in our H Shares on the Stock Exchange. We cannot assure you that an active and liquid public trading market for our H Shares will develop following the Global Offering or, if it does develop, that it will be sustained or that the market price for our H Shares will not decline below the initial Offer Price. Factors, such as variations in our revenue, earnings and cash flows or any other developments of our Company, may affect the volume and price at which the H Shares will be traded.

The price and trading volume of our H Shares may be volatile, which could result in substantial losses for investors purchasing our H Shares in the Global Offering. Factors such as fluctuations in our sales, earnings, cash flows, new investments, acquisitions or alliances, regulatory developments, additions or departures of key personnel, or actions taken by competitors could cause the market price of our H Shares or trading volume of our H Shares to change substantially and/or unexpectedly. In addition, stock prices have been subject to significant volatility in recent years. Such volatility has not always been directly related to the performance or condition of the specific companies whose shares are traded. Such volatility, as well as general economic conditions, may adversely affect the prices of our H Shares, and as a result investors in our H Shares may incur substantial losses.

There can be no assurance if and when we will pay dividends in the future.

Our ability to pay dividends will depend on whether we are able to generate sufficient earnings. Under the applicable PRC laws, dividends may be paid only out of distributable profits. Distributable profits are our after-tax profits as determined under PRC GAAP or IFRS, whichever is lower, less any recovery of accumulated losses and appropriations to statutory and other reserves that we are required to make. A decision to declare, or to pay, any dividends and the amount of any dividends will also depend on various factors, including without limitation to our business, financial condition, results of operations, cash flows, operating and capital expenditure requirements, the PRC Company Law and other applicable PRC laws and regulations, market conditions, our strategic plans and prospects for business development, contractual limits and obligations, payment of dividends to us by our operating subsidiaries, taxation, regulatory restrictions and any other factors determined by our Board from time to time, to be relevant to the declaration or suspension of dividend payments. As a result, although we have declared special dividends of RMB110.5 million in the past, there can be no assurance whether, when and in what form we will pay dividends in the future. Subject to any of the above constraints, we may not be able to pay dividends in accordance with our dividend policy.

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Control by our Controlling Shareholders of a substantial percentage of our Company's share capital after the completion of the Global Offering may limit your ability to influence the outcome of decisions requiring the approval of Shareholders.

Upon completion of the Global Offering on the assumption that the Over-allotment Option is not exercised, approximately 56.73% of our issued Shares will be held by our Controlling Shareholders. Yunnan Province Water together with the Acting in Concert Parties and Beijing OriginWater will hold 31.81% and 24.92% of our issued Shares, respectively. The interests of our Controlling Shareholders may conflict with the interests of our other Shareholders. Following the completion of the Global Offering, our Controlling Shareholders will continue to have significant influence over us, including on matters relating to potential mergers, consolidations, the sale of all or substantially all of our assets, the election of Directors, and other significant corporate actions. This concentration of ownership may discourage, delay or prevent a change in control of us, which could deprive our Shareholders of the opportunity to receive a premium for their H Shares as part of a sale of us or our assets, and might reduce the trading price of our H Shares. Due to our Controlling Shareholders' position, these actions may be taken even if they are opposed by our other Shareholders, including those who subscribe for our H Shares in the Global Offering. For more information regarding the share ownership of, and our relationship with, our Controlling Shareholders, see "Relationship with our Controlling Shareholders".

Future sale or major divestment of shares by our Controlling Shareholders could adversely affect the prevailing market price of our H Shares.

Our H Shares held by our Controlling Shareholders are subject to certain lock-up periods, the details of which are set out in "Underwriting".

After these restrictions lapse, the market price of our H Shares may decline as a result of future sales of substantial amounts of our H Shares or other securities relating to our H Shares in the public market, the issuance of new H Shares or other securities relating to our H Shares, or the perception that such sales or issuances may occur. This could also materially and adversely affect our ability to raise capital in the future at a time and at a price we deem appropriate.

New investors will incur immediate dilution and may experience further dilution.

The Offer Price is substantially higher than our audited net asset value per H Share based on our issued share capital after the completion of the Global Offering. If we were liquidated for net asset value immediately following the Global Offering, each Shareholder subscribing to the Global Offering would receive less than the price they paid for their H Shares. If the Sole Global Coordinator exercises the Over-allotment Option, holders of our H Shares may experience a further dilution of their interest. In addition, in order to expand our business, we may consider offering and issuing additional H Shares in the future. Investors of our H Shares

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may experience dilution in the net asset value per H Share of their H Shares if we issue additional H Shares in the future. In addition, the incurrence of indebtedness would result in increased debt service obligations resulting in operating and financing covenants that would restrict our operations or our ability to pay dividends to Shareholders.

Any possible conversion of our Domestic Shares into H Shares in the future could increase the number of our H Shares in the market and negatively impact the market price of our H Shares

Subject to the approval of the CSRC, all of our Domestic Shares may be converted into H Shares in the future, and such converted shares may be listed or traded on an overseas stock exchange, provided that prior to the conversion and trading of such converted shares, any requisite internal approval by our Shareholders in a general meeting is duly obtained and the approvals from relevant PRC regulatory authorities are obtained. However, the PRC Company Law provides that in relation to the public offering of a company, the shares of that company which are issued prior to the public offering shall not be transferred within one year from the date of listing of the public offering. Therefore, upon obtaining the requisite approval, our Domestic Shares may be traded, after the conversion, in the form of H Shares on the Stock Exchange one year after this Global Offering, which at that time could further increase the number of our H Shares available in the market and negatively impact the market price of our H Shares.

Forward-looking information in this prospectus may prove inaccurate.

This prospectus contains certain forward-looking statements and information relating to us that are based on our management's belief and assumptions. The words "anticipate", "believe", "expect", "going forward" and similar expressions, as they relate to us or our management, are intended to identify forward-looking statements. Such statements reflect our management's current views with respect to future events and are subject to certain risks, uncertainties and assumptions, including the risk factors described herein. Should one or more of these risks or uncertainties materialise, or should underlying assumptions prove incorrect, our financial condition may be adversely affected and may vary materially from those described herein as anticipated, believed, estimated or expected. You are strongly cautioned that reliance on any forward-looking statements involves known or unknown risks and uncertainties. Subject to the requirements of the Listing Rules, we do not intend to publicly update or otherwise revise the forward-looking statements in this prospectus, whether as a result of new information, future events or otherwise. As a result of these and other risks, uncertainties and assumptions, the forward-looking events and circumstances discussed herein might not occur in the way we expect, or at all. In all cases, you should consider carefully how much weight or importance you should attach to, or place on, such facts or statistics.

RISK FACTORS

We cannot guarantee the accuracy of facts and other statistics with respect to the PRC, the PRC economy and the PRC wastewater treatment and water supply services industries contained in this prospectus.

We have derived certain facts and other statistics in this prospectus, particularly those relating to the PRC, the PRC economy and the wastewater treatment and water supply services industries in which we operate, from information provided by PRC government agencies, industry associations, independent research institutes or other third-party sources that we believe to be reliable. While our Directors have taken reasonable care in the reproduction of the information, they have not been prepared or independently verified by us, the Sole Global Coordinator, the Sole Sponsor, the Sole Bookrunner, the Sole Lead Manager, the Underwriter or any of our or their respective affiliates or advisers and, therefore, we cannot assure you as to the accuracy and reliability of such facts and statistics, which may not be consistent with other information compiled in or outside the PRC. The facts, forecasts and other statistics include the facts, forecasts and statistics included in “Risk factors”, “Industry overview” and “Business”. Due to possibly flawed or ineffective collection methods or discrepancies between published information and market practice and other problems, the statistics herein may be inaccurate or may not be comparable to statistics produced for other economies, and you should not place undue reliance on them. 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. Furthermore, we cannot assure you that they are stated or compiled on the same basis or with the same degree of accuracy as similar statistics presented elsewhere.

You should read the entire prospectus carefully and we strongly caution you not to place any reliance on any information contained in press articles or other media regarding us and the Global Offering, including, in particular, any projections, valuations or other forward-looking information, which may not be consistent with the information contained in this prospectus.

Prior or subsequent to the publication of this prospectus, there has been or may be press and media coverage regarding us and the Global Offering. We have not authorised the disclosure of any such information in the press or media, the financial information, financial projections, valuations and other information about us contained in such unauthorised press and media coverage may not truly reflect what is disclosed in this prospectus or the actual circumstances, and we do not accept responsibility for the accuracy or completeness of such press articles or other media coverage. We make no representation as to the appropriateness, accuracy, completeness or reliability of any of the projections, valuations or other forward-looking information about us or the Global Offering, or of any assumptions underlying such projections, valuations or other forward-looking information included in or referred to by the press articles or other media. We strongly caution you not to place any reliance on any information contained in press articles or other media regarding us and the Global Offering. To the extent that any such information appearing in the press or media is inconsistent or conflicts with the information contained in this prospectus or the actual circumstances, we shall not be liable on the same. Accordingly, you are cautioned to make your investment decisions on the basis of the information contained in this prospectus only and not to rely on any other information.

WAIVER FROM STRICT COMPLIANCE WITH THE LISTING RULES

MANAGEMENT PRESENCE IN HONG KONG

Rules 8.12 and 19A.15 of the Listing Rules require that an issuer must have sufficient management presence in Hong Kong and, in normal circumstances, at least two of the issuer's executive directors must be ordinarily resident in Hong Kong. Rule 19A.15 of the Listing Rules states that the requirement under Rule 8.12 of the Listing Rules applies to a new applicant incorporated in the PRC, but also provides that the requirement may be waived by the Stock Exchange in its discretion.

Our headquarter and substantially all of our business operations are located, managed and conducted in the PRC. As the executive Directors play very important roles in our Company's business operations, it is in our best interests for them to be based in or be near the places where our Group has significant operations. Therefore, our Company currently does not, and in the foreseeable future will not, have executive Directors who are ordinarily resident in Hong Kong. Currently, our three executive Directors are ordinarily resident in the PRC. For further details of our three executive Directors, see "Directors, Supervisors and Senior Management — Board of Directors".

Accordingly, we have applied to the Stock Exchange for, and the Stock Exchange has granted us, a waiver from strict compliance with Rule 8.12 and Rule 19A.15 of the Listing Rules. We have made the following arrangements in order to maintain effective communication with the Stock Exchange:

- Our Company has appointed two authorised representatives pursuant to Rule 3.05 of the Listing Rules who will act as our Company's principal communication channel with the Stock Exchange and will ensure that the Group complies with the Listing Rules at all times. Although they reside in the PRC, they have valid travel documents and are able to renew such travel documents when they expire in order to visit Hong Kong. Each of the two authorised representatives has been duly authorised to communicate on behalf of our Company with the Stock Exchange and each of them will be readily available to meet with the Stock Exchange in Hong Kong within a reasonable time frame upon request and will be readily contactable by telephone, facsimile or email;
- Both of the authorised representatives have means to contact all members of the Board promptly at all times as and when the Stock Exchange wishes to contact the Directors on any matters;
- Our Company has implemented a policy whereby (i) each Director will provide his or her respective mobile phone number, office phone number, fax number and email address to the authorised representatives and provide an update immediately in case of change; (ii) each Director will provide valid phone numbers of the place of

WAIVER FROM STRICT COMPLIANCE WITH THE LISTING RULES

his or her accommodation or means of communication to the authorised representatives when he or she travels; and (iii) each Director and authorised representative has provided his or her mobile phone number, office phone number, fax number and email address to the Stock Exchange;

- Each Director not ordinarily resident in Hong Kong has confirmed that they possess or can apply for valid travel documents to visit Hong Kong and will be able to meet with the Stock Exchange in Hong Kong within a reasonable period; and
- Our Company has appointed Somerley Capital Limited as the compliance adviser who will have access at all times to our Company's authorised representatives, Directors and other officers and will act as our Company's additional communication channel with the Stock Exchange for the period commencing on the Listing Date and ending on the date on which our Company distributes the annual report for the first full financial year after the Listing. The contact person of the compliance advisor will be fully available to answer enquiries from the Stock Exchange.

CONNECTED TRANSACTION

Our Group has entered into, and are expected to continue after the Listing, certain transactions, which will constitute non-exempt continuing connected transactions under the Listing Rules upon the Listing. We have applied for, and the Stock Exchange has granted us, a waiver pursuant to Rule 14A.105 of the Listing Rules from the strict compliance with the announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules. The details of such non-exempt continuing connected transactions and the corresponding waiver are set out in "Connected Transactions".

INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

DIRECTORS' RESPONSIBILITY FOR THE CONTENT OF THIS PROSPECTUS

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

CSRC APPROVALS

The CSRC issued an approval letter on 1 April 2015 for the Global Offering and the making of the application to list the H Shares on the Stock Exchange. In granting such consent, the CSRC accepts no responsibility for the financial soundness of us or for the accuracy of any of the statements made or opinions expressed in this prospectus or in the Application Forms.

THE HONG KONG PUBLIC OFFERING AND THIS PROSPECTUS

This prospectus is published solely in connection with the Hong Kong Public Offering, which forms part of the Global Offering. Neither the delivery of this prospectus nor any subscription or acquisition made under it shall, under any circumstances, create any implication that there has been no change in our affairs since the date of this prospectus or that the information in it is correct as of any subsequent time.

UNDERWRITING

For applicants under the Hong Kong Public Offering, this prospectus and the related Application Forms contain the terms and conditions of the Hong Kong Public Offering. The listing of our H Shares on the Stock Exchange is sponsored by the Sole Sponsor. The Global Offering is managed by the Sole Global Coordinator. The Hong Kong Public Offering is fully underwritten by the Hong Kong Underwriter. The International Offering is expected to be fully underwritten by the International Underwriter. For further details about the Underwriter and the underwriting arrangements, see "Underwriting".

RESTRICTIONS ON OFFER AND SALE OF THE OFFER SHARES

Each person subscribing for the Hong Kong Offer Shares under the Hong Kong Public Offering will be required to confirm, or by his/her subscription of Hong Kong Offer Shares be deemed to confirm, that he/she is aware of the restrictions on offer and sale of the Offer Shares described in this prospectus.

INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

No action has been taken to permit a public offering of the Offer Shares in any jurisdiction other than in Hong Kong, or the distribution of this prospectus and/or the related Application Forms in any jurisdiction other than Hong Kong. Accordingly, this prospectus and/or the related Application Forms 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/or the related Application Forms and the offer and sale of the Offer Shares in other jurisdictions are subject to restrictions and may not be made except as permitted under the applicable securities laws of such jurisdictions pursuant to registration with or authorisation by the relevant securities regulatory authorities or an exemption therefrom.

The Offer Shares are offered for subscription or sale solely on the basis of the information contained and representations made in this prospectus and related Application Forms, and on the terms and subject to the conditions set out herein and therein. No person is authorised in connection with the Global Offering to give any information, or to make any representation, not contained in this prospectus, and any information or representation not contained in this prospectus must not be relied upon as having been authorised by our Company, the Sole Sponsor, the Sole Global Coordinator, the Sole Bookrunner, the Sole Lead Manager, the Underwriter, any of their respective directors, officers, employees, advisors, agents or representatives or any other persons or parties involved in the Global Offering. For further details of the structure of the Global Offering, including its conditions, and the procedures for applying for Hong Kong Offer Shares, see “Structure of the Global Offering” and “How to Apply for Hong Kong Offer Shares” and the relevant Application Forms.

APPLICATION FOR LISTING OF THE SHARES ON THE STOCK EXCHANGE

We have applied to the Listing Committee for the granting of listing of, and permission to deal in (i) the H Shares to be issued pursuant to the Global Offering (including any H Shares which may be issued pursuant to the exercise of the Over-allotment Option); and (iii) the H Shares converted from state-owned Shares which are to be held by the NSSF. Save as disclosed in this prospectus, no part of our Share is listed or dealt in on any other stock exchange and no such listing or permission to list is being or is proposed to be sought in the near future.

PROFESSIONAL TAX ADVICE RECOMMENDED

If you are unsure about the taxation implications of subscribing for, purchasing, holding, disposing of, or dealing in our H Shares or exercising any rights attached to them, you should consult an expert. It is emphasised that none of us, the Sole Global Coordinator, the Sole Sponsor, the Sole Bookrunner, the Sole Lead Manager, the Underwriter, their respective directors, officers, employees, advisors, agents or representatives nor any other person involved in the Global Offering accepts responsibility for any tax effects on, or liabilities of, any person resulting from subscribing for, purchasing, holding, disposing of, or dealing in our H Shares or exercising any rights attached to them.

INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

STABILISATION

For details of stabilising actions by the Stabilising Manager, see “Structure of Global Offering — Stabilisation.”

PROCEDURE FOR APPLICATION FOR HONG KONG OFFER SHARES

The procedures for applying for the Hong Kong Offer Shares are set out in “How to Apply for Hong Kong Offer Shares” and in the Application Forms.

STRUCTURE OF THE GLOBAL OFFERING

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

REGISTER OF MEMBERS AND STAMP DUTY

All of the H Shares issued pursuant to applications made in Global Offering will be registered on our H Share register to be maintained in Hong Kong by our H Share Registrar, Tricor Investor Services Limited at Level 22, Hopewell Centre, 183 Queen’s Road East, Hong Kong. Our principal register of members will be maintained by us at our headquarter in the PRC. Dealings in the H Shares registered in our H Share register will be subject to Hong Kong stamp duty.

REGISTRATION OF SUBSCRIPTION, PURCHASE AND TRANSFER OF H SHARES

We have instructed Tricor Investor Services Limited, our H Share Registrar, and it has agreed, not to register the subscription, purchase or transfer of any H Shares in the name of any particular holder unless and until the holder delivers a signed form to our H Share Registrar in respect of those H Shares bearing statements to the effect that the holder:

- (i) agrees with us and each of our Shareholders, and we agree with each Shareholder, to observe and comply with the Company Law, the Special Regulations and our Articles of Association;
- (ii) agrees with us, each of our Shareholders, Directors, Supervisors, managers and officers, and we acting for ourselves and for each of our Directors, Supervisors, managers and officers agree with each of our Shareholders to refer all differences and claims arising from our Articles of Association or any rights or obligations conferred or imposed by the Company Law or other relevant laws and administrative regulations concerning our affairs to arbitration in accordance with our Articles of Association, and any reference to arbitration shall be deemed to authorise the arbitration tribunal to conduct hearings in open session and to publish its award. Such arbitration shall be final and conclusive;

INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

- (iii) agrees with us and each of our Shareholders that the H Shares are freely transferable by the holders thereof; and
- (iv) authorises us to enter into a contract on his or her behalf with each of our Directors, Supervisors, managers and officers whereby such Directors, Supervisors, managers and officers undertake to observe and comply with their obligations to our Shareholders as stipulated in our Articles of Association.

H SHARES WILL BE ELIGIBLE FOR ADMISSION INTO CCASS

Subject to the granting of listing of, and permission to deal in, the H Shares on the Stock Exchange and our compliance with the stock admission requirements of HKSCC, the H 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 H 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 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 advisors for the details of the settlement arrangements as such arrangements may affect their rights and interests. All necessary arrangements have been made for the H Shares to be admitted into CCASS.

CURRENCY CONVERSIONS

Solely for your convenience, this prospectus contains translations among certain amounts denominated in Renminbi and Hong Kong dollars. No representation is made and none should be construed as being made that the amounts denominated in one currency could actually be converted into the amounts denominated in another currency at the rates indicated or at all on such date or any other date. Unless indicated otherwise, the translations between Renminbi and Hong Kong dollars were made at the rate of RMB1.00 to HK\$1.26263, and the translations between U.S. dollars and Hong Kong dollars were made at the rate of US\$1.00 to HK\$7.80. In respect of certain historical figures, the translations between Renminbi and Hong Kong dollars were based on the prevailing exchange rates at the relevant times.

LANGUAGE

If there is any inconsistency between this prospectus and the Chinese translation of this prospectus, this prospectus shall prevail.

ROUNDING

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

DIRECTORS, SUPERVISORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

DIRECTORS

Name	Residential Address	Nationality
<i>Non-executive Directors</i>		
Mr. Xu Lei (許雷)	Room 601, Unit 2, Building 9 48 Hongshan Road West Wuhua District, Kunming (昆明市五華區虹山西路48號9棟2單元601室)	Chinese
Mr. Wen Jianping (文劍平)	Room 207, Building 911 Zhongguancun, Haidian District Beijing (北京市海澱區中關村911樓207號)	Chinese
Mr. Jiao Jun (焦軍)	Unit 1-302, Building 12 Jin'an Spring, Dianchi Road Kunming, Yunnan (雲南昆明市滇池路金岸春天12幢1單元302號)	Chinese
Mr. He Yuanping (何願平)	Unit 1-103, Building 2, Yard 3 Ganhua Hutong Road Xuanwu District, Beijing (北京市宣武區感化胡同3號院2號樓1門103號)	Chinese
Mr. Feng Zhuangzhi (馮壯志)	Unit 1-401, Building 2 Wenhua Garden, Lixia District Jinan, Shandong (濟南市歷下區文化園2號樓1單元401號)	Chinese
<i>Executive Directors</i>		
Mr. Yu Long (于龍)	Unit 6-302, 1/F, Boyaxiyuan Xianghuangqi, Haidian District Beijing (北京市海澱區廂黃旗博雅西園1樓6門302號)	Chinese
Mr. Liu Xujun (劉旭軍)	Room 903, 134 Shulin Street Xishan District, Kunming (昆明市西山區書林街134號903號)	Chinese

DIRECTORS, SUPERVISORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

Name	Residential Address	Nationality
Mr. Huang Yunjian (黃雲建)	Room 603, Unit 3, Building 4 Shilibei'an, Changqing Road Panlong District, Kunming (昆明市盤龍區長青路實力北岸4棟 3單元603號)	Chinese
Independent non-executive Directors		
Mr. Kwok For Chi (郭科志)	Room 2430, King Tao House King Lam Estate, Tseung Kwan O New Territories, Hong Kong	Chinese
Mr. Ma Shihao (馬世豪)	Unit 12-4, Fuwai Beisixiang Xicheng District, Beijing (北京市西城區阜外北四巷12門4號)	Chinese
Mr. Ren Gangfeng (任鋼鋒)	Room 1002, Building 1 Guihuaxinyuan, Guandu District Kunming (昆明市官渡區桂華新園1幢1002號)	Chinese
Mr. Hu Song (胡松)	Room 903, Building 2B Poly Castle Garden, Nanshan District Shenzhen, Guangdong (廣東省深圳市南山區保利城花園2棟B 座903)	Chinese
Supervisors		
Ms. Yang Chuanyun (楊川雲)	Room 701, Unit 1, Building 11 Xiaocaiyuan, Wuhua District, Kunming (昆明市五華區小菜園11幢1單元701室)	Chinese
Ms. Wang Shuqin (王淑琴)	Room 2, Unit 3, Xijialou, Bei'eryuan Laiheju, Haidian District, Beijing (北京市海澱區來鶴居北二院西加樓 3單元2號)	Chinese
Ms. Li Bo (李波)	Unit 1, 225 Xichang Road Xishan District, Kunming (昆明市西山區西昌路225號附1號)	Chinese

DIRECTORS, SUPERVISORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

Name	Residential Address	Nationality
Mr. Tan Hairui (譚海銳)	Room 501, Unit 1, Building 3 Yinshengyuan Estate Keyi Road, Gaoxin District Kunming (昆明市高新區科醫路銀盛苑小區3幢1單元501室)	Chinese
Mr. Cao Jinwen (曹晉聞)	Room 501, Unit 2, Building 13 Xiaokang Road Beicangyuanding Estate Hongyun Office, Kunming (昆明市紅雲辦事處北倉園丁小區小康大道13幢2單元501室)	Chinese
Ms. Tang Shuang (唐爽)	Room 703, Unit 1, Building 8 Yulongxiang Estate Shuyang Street Anfu District, Xianghe County Langfang (廊坊市香河縣安撫區淑陽大街育龍香苑8號樓1單元703室)	Chinese

See “Directors, Supervisors and Senior Management” for further details.

DIRECTORS, SUPERVISORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

PARTIES INVOLVED IN THE GLOBAL OFFERING

Sole Global Coordinator, Sole Sponsor, Sole Bookrunner and Sole Lead Manager	China Merchants Securities (HK) Co., Limited 48/F., One Exchange Square Central Hong Kong
Legal advisers to our Company	<i>As to Hong Kong law:</i> Eversheds 21/F, Gloucester Tower The Landmark 15 Queen's Road Central Hong Kong <i>As to PRC law:</i> Jia Yuan Law Offices F408 Ocean Plaza 158 Fuxing Men Nei Street Xicheng District Beijing 100031 PRC
Legal advisers to the Sole Sponsor and the Underwriter	<i>As to Hong Kong law and U.S. law:</i> Freshfields Bruckhaus Deringer 11th Floor Two Exchange Square Central Hong Kong <i>As to PRC law:</i> Jingtian & Gongcheng 34th Floor, Tower 3 China Central Place 77 Jianguo Road Chaoyang District Beijing 100025 PRC
Auditor and reporting accountant	PricewaterhouseCoopers <i>Certified Public Accountants</i> 22/F, Prince's Building Central Hong Kong

DIRECTORS, SUPERVISORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

Industry consultant	Ernst & Young Level 16 Tower Oriental Plaza, No.1 East Chang An Avenue Dongcheng District Beijing PRC
Internal control consultant	BDO China Shu Lun Pan Certified Public Accountants LLP 9th Floor, 61 East Nanjing Road Shanghai PRC
Receiving banks	Standard Chartered Bank (Hong Kong) Limited 15/F Standard Chartered Tower 388 Kwun Tong Road Kwun Tong Hong Kong The Bank of East Asia, Limited 10 Des Voeux Road Central Hong Kong Bank of Communications Co., Ltd. Hong Kong Branch 20 Pedder Street Central Hong Kong

CORPORATE INFORMATION

**Registered address and
headquarter in the PRC**

16th Floor, Block A
He Cheng International
1088 Haiyuan Zhong Road
Gaoxin District
Kunming
Yunnan

**Principal place of business in
Hong Kong**

Suite 5007, 50/F, Central Plaza,
18 Harbour Road, Wan Chai
Hong Kong

Website address

www.yunnanwater.cn⁽¹⁾

Company secretary

Mr. Li Bo (李博) (HKICPA, CPA Australia)
No. 5, Lane 3, Taijichang,
Dongcheng District,
Beijing
(北京市東城區台基廠三條5號)

Authorised representatives

Mr. Yu Long
Unit 6-302, 1/F, Boyaxiyuan,
Xianghuangqi, Haidian District,
Beijing
(北京市海澱區龐黃旗博雅西園1樓6門302號)

Mr. Liu Xujun
Room 903,
134 Shulin Street,
Xishan District, Kunming
(昆明市西山區書林街134號903號)

Audit committee

Mr. Kwok For Chi (*Chairman*)
Mr. Ma Shihao
Mr. Ren Gangfeng
Mr. Hu Song

Remuneration committee

Mr. Hu Song (*Chairman*)
Mr. Yu Long
Mr. Ren Gangfeng

Note:

(1) The information contained on the website of our Company does not form part of this prospectus.

CORPORATE INFORMATION

Nomination committee	Mr. Xu Lei (<i>Chairman</i>) Mr. Ren Gangfeng Mr. Hu Song
Compliance committee	Mr. Yu Long (<i>Chairman</i>) Mr. Kwok For Chi Mr. Hu Song Mr. Ren Gangfeng Ms. Yang Chuanyun
Compliance adviser	Somerley Capital Limited 20/F, China Building 29 Queen's Road Central Hong Kong
H Share Registrar	Tricor Investor Services Limited Level 22 Hopewell Centre 183 Queen's Road East Hong Kong
Principal bankers	Bank of Communications Bank of Communications Yunnan Branch 67 Huguo Road Kunming Yunnan Bank of China Bank of China Yunnan Branch 350 Renmin West Street Gaoxin District Kunming Yunnan China Construction Bank China Construction Yunnan Branch Meiya Building 18 Renmin Road Kunming Yunnan

INDUSTRY OVERVIEW

Certain facts, information, statistics and data relating to the PRC economy and the industry in which we operate that are presented in this section and elsewhere in this prospectus are derived from publicly available official government sources (including various publications issued by PRC Government entities) as well as the EY Report. The information from official government publications and the EY Report may not be consistent with other information compiled within or outside the PRC. We believe that the sources of this information are appropriate sources for such information and have exercised 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. The information has not been independently verified by us or any of our respective Directors, officers, representatives or affiliates, the Sole Global Coordinator, the Sole Bookrunner, the Sole Lead Manager and the Sole Sponsor or any other party involved in the Global Offering and no representation is given as to its accuracy or correctness, and accordingly, it should not be unduly relied on. Unless otherwise indicated, all data in this section is derived from the EY Report.

In connection with the Global Offering, we have engaged EY Advisory, an Independent Third Party, to prepare the EY Report which studied the overall water sector in the PRC. EY Advisory is a professional services firm providing a broad array of services relating to audits and risk management, taxation and business transactions. Its commercial advisory services include commercial due diligence, market penetration and growth strategy development, competitive analysis, market assessment, sourcing and distribution strategy development and business plan review. EY Advisory's clients in the wastewater treatment and water supply industry within the PRC include other domestic wastewater treatment and water supply enterprises.

The EY Report was prepared based on a top-down approach, starting from the water sector in the PRC, then turning to the water supply industry, and finally to the wastewater treatment industry. EY Advisory 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. 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 EY Report were done utilising a mix of both qualitative and quantitative analysis. Whenever applicable, a set of historical data was used as a basis for its projections, and if necessary, adjustments were subsequently made for projection purposes and to ensure data relevancy. The total fees in connection with the EY Report were RMB485,000.

INDUSTRY OVERVIEW

OVERVIEW OF THE PRC WATER SECTOR

Water Resource in the PRC

By the end of 2013, total annual water resources, including surface water and sub-surface water, in the PRC amounted to 2,786 billion tonnes. From 2009 to 2013, the average water resource per capita in the PRC was 2,018 tonnes. According to United Nations standards, the PRC is facing a water shortage between the moderate (1,000 to 2,000 tonnes per capita) and mild level (2,000 to 3,000 tonnes per capita). With the liberalisation of the PRC government's population policy, the population growth rate is expected to grow steadily over the next 10 to 15 years, which may cause the PRC to enter into a severe water shortage situation. Currently, poor water quality is the major reason causing the scarcity of water resources. Increasing the wastewater treatment and water reclamation rate is an important step in solving the water crisis in the PRC.

Water Industry in the PRC

Due to sustained economic growth and rapid urbanisation in the PRC, as well as continued improvement in the standard of living, public infrastructure upgrades and/or construction, especially in the municipal water industry, have become a top priority of the PRC Government. The development of municipal water infrastructures has traditionally been the sole responsibility of the state and/or local governments. However, investments by local governments alone are now insufficient to meet the large demand for the construction of water facilities. Such deficiency in government funding and investment hinders technological advancement in the water sector and the provision of quality customer services. To bridge this funding gap, the PRC Government has increasingly adopted a market-oriented approach by inviting private enterprises to invest in the water sector.

In September 2014, the Ministry of Finance announced an official definition of Public-Private-Partnership (“**PPP**”) for the very first time and encouraged the promotion of this operation model in the public services sectors, including the water supply and wastewater treatment industries. Currently, the most common application of the PPP operation model in the water sector is in BOT, BT, BOO, TOT and EPC project models. Of such models, the BOT model is the most commonly used investment arrangement for Chinese public utility projects.

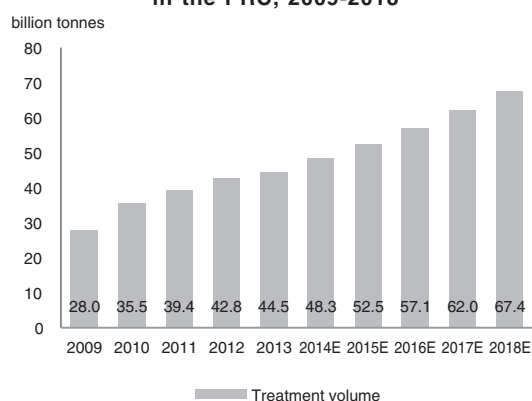
In April 2015, the State Council issued The Action Plan to Tackle Water Pollution (《水污染防治行動計劃》), which proposes 10 measures including comprehensively controlling discharge of pollutants, enhancing scientific and technological support and making full use of a market-oriented system. These provisions aim to help water enterprises strictly control emission standards, introduce advanced technologies and promote diversified investments, including introducing social capital and increasing government funding. With stricter industry standards, improved technologies and an expanded investment scale, the PRC water sector is expected to have new opportunities for future development.

INDUSTRY OVERVIEW

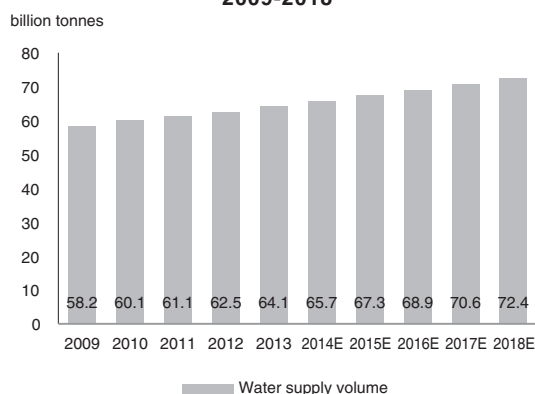
Municipal wastewater treatment and water supply market

Municipal wastewater treatment and water supply are the two major parts of the water industry chain. By the end of 2013, the total wastewater treatment volume in the PRC was 44.5 billion tonnes and the total municipal water supply volume in the PRC was 64.1 billion tonnes. According to EY Advisory, by the end of 2018, the total national municipal wastewater treatment volume and water supply volume are forecasted to reach 67.4 billion tonnes and 72.4 billion tonnes, respectively, representing a CAGR of 8.7% and 2.4%, respectively.

Municipal Annual Wastewater Treatment Volume in the PRC, 2009-2018



Annual Municipal Water Supply Volume in the PRC, 2009-2018



Sources: MOHURD, NBS, EY Advisory

Construction and Equipment Sales Market

Water plant construction refers to projects where water companies are engaged by local governments or related agencies to provide design and construction services for water treatment plants and water supply plants. The project models used include BT and EPC project models. Under a BT project model, the contractors own the facilities to be constructed and transfer the ownership of the facilities back to the local governments or related agencies upon completion of construction. Under an EPC project model, the contractors transfer the constructed facilities to the owner upon completion of construction. Under each project model, the contractors can hire sub-contractors or sub-vendors to construct different portions of the projects.

Equipment sales is a relatively independent market segment within the water industry chain in China. In the PRC, due to a lack of advanced technology and capital, the market development for equipment sales has been relatively slow, especially for domestic manufacturers. In addition, there are very few domestic players capable of providing a complete set of treatment equipment on a per project basis.

There are three types of companies competing in the construction and equipment sales segment of the water industry, namely (i) companies with light assets focusing on the construction and equipment sales business, (ii) water facility operators and (iii) professional water investment companies.

INDUSTRY OVERVIEW

Companies with light assets are the most common type of participants in the construction and equipment sales segment of the water industry. There are approximately 70 to 80 of such companies in the PRC, most of which focus on construction and equipment sales and have technical advantages with regard to the construction of water plants and the manufacturing of water equipment. Examples of such companies include Tianjin MOTIMO Membrane Technology, South Huitonnegin and Beijing Water Business Doctor.

With regard to water facility operators, many of them have entered into the construction and equipment sales industry in order to grow into integrated regional environmental companies with businesses covering the entire water industrial chain. For example, Beijing OriginWater, which only provided municipal wastewater treatment services in the past, has been engaged in the construction and equipment sales business and has become a major player in this industry.

For professional water investment companies, in recent years, some of them have entered into the construction and equipment sales industry by acquiring construction companies and equipment manufacturers and have relied on their large scale and strong financing capabilities. Xing Rong Investment, which is a listed company in the PRC, is an example of this type of company and has successfully realised vertical integration through acquisitions. InterChine Water, which is also a listed company in the PRC, is another example and has successfully begun manufacturing membrane related equipment for wastewater treatment.

Technologies used in the Water Sector

In the PRC water sector, conventional technologies are still commonly used in most regions, particularly in wastewater treatment and water supply facilities. In order to manage the water resource shortage and serious water pollution problems, membrane technologies, which can achieve a higher quality of treated water through raw water treatment, are becoming more popular in the PRC.

Main Technologies in Wastewater Treatment and Water Supply

	Wastewater Treatment		Water Supply	
	Main Technologies	Market share	Main Technologies	Market share
Conventional Technologies	Oxidation Ditch	26.7%	Conventional water sedimentation, filtration and chlorination process	98%
	A ² /O and modified	24.4%		
	CASS/CAST	12.0%		
	A/O and modified	10.1%		
	Biochemical treatment	7.7%		
	SBR and modified	6.7%		
	Activated Sludge	3.8%		
Advanced Technology	MBR	3.5%	Activated carbon absorption technology/Ozone technology/Membrane technology	2%

INDUSTRY OVERVIEW

	Wastewater Treatment	Water Supply
	Main features of MBR	Main features of CMF ⁽¹⁾
	• High and stable water quality: Due to highly efficient membrane separation, the separation result is much better than a traditional sedimentation tank. The treated water is extremely clear with no suspended solids and turbidity close to zero, bacteria and viruses are substantially removed, and the treated water can be reused directly as non-potable water. • The remaining sludge production is low: The process can be run at a high volume and low sludge load so as to allow low sludge production (theoretically, zero sludge emission can be achieved), which reduces sludge disposal costs. • Small operation area without location restrictions: The bioreactor can maintain high levels of microbial biomass and the processing system has high volumetric loading, which saves space. The process is simple, compact and without location restrictions. • Efficiently removes organic pollutants and ammonia: Benefiting from its higher sludge load concentration, MBR systems can treat wastewater more efficiently than traditional treatment processes. • Membrane technology is able to achieve the complete separation of water and sludge effectively, which allows the run control to be more flexible and stable. It can be easily applied in wastewater treatment facilities and controlled through a computer system, making management and monitoring more efficient.	• Energy saving. • Easy to operate through automation. • Easy to maintain. • Particularly suitable for the separation of heat-sensitive substances.

Sources: Expert's interview, EY Advisory

Note:

- (1) Membrane technology covers all engineering approaches to the transport of substances between two fractions with the help of permeable membranes. CMF is one type of membrane technology.

Benefiting from such preferential policies and laws as the 12th Five-Year Special Plan for Technology Development of High Performing Membrane Materials, the 12th Five-Year Development Plan for New Materials Industry and the 12th Five-Year Development Plan for Energy-Saving and Environmental Protection Industry, membrane separation technologies are likely to be further developed in the PRC water industry. Policy support from national and local governments are the main drivers of the development of membrane separation technologies in the PRC water market.

In 2012, the National Drinking Water Standard (GB 5749-2006) came into effect, requiring more stringent water supply quality levels. As a result, water supply plants began to gradually upgrade their processes and facilities and adopt membrane separation technologies to meet the new criteria.

INDUSTRY OVERVIEW

Competitive Landscape of the Water Sector

China Market

At present, there are more than 1,200 industry players in the water sector, including SOEs, collective companies (集體企業), sino-foreign joint-venture companies and privately owned companies. In 2012, the annual sales of SOEs and collective companies together accounted for 54% of the overall sales in the PRC water sector, while sales of joint-venture companies, privately owned companies and foreign enterprises only accounted for 17%, 8% and 21%, respectively. SOEs are the most active investors in the PRC water sector due to their capital strength, asset scale and government background. In 2013, the total treatment capacity of the PRC water sector, including raw water supply, tap water supply, wastewater treatment and reclaimed water production, was approximately 485 million tonnes/day.

Yunnan Market

At present, the major market players in Yunnan's water sector are mostly SOEs. In Kunming City, Competitor A (1,415,000 tonnes/day) is the major water supply provider and Competitor B (1,255,000 tonnes/day) operates wastewater treatment plants. Both Competitor C (280,000 tonnes/day), a major enterprise in Qujing City, and Competitor D (200,000 tonnes/day), a major enterprise in Yuxi City, engage in water supply and wastewater treatment businesses. These four water enterprises are local SOEs.

Top 5 Yunnan-based Water Enterprises by Capacity, 2013

Ranking	Company	Capacity (1,000 tonnes/day)
1	Competitor A	1,415
2	Our Company	1,300
3	Competitor B	1,255
4	Competitor C	280
5	Competitor D	200

Sources: annual reports for listed companies in 2013, company websites, H2O-china.com, EY Advisory

Note: (i) Yunnan-based water enterprises refer to companies that are operating in the water sector and are headquartered in Yunnan Province; (ii) Capacity refers to the sum of water supply and wastewater treatment capacity in the PRC for that enterprise by the end of 2013; (iii) the official capacity of Competitor A is 1,625 thousand tonnes/day, but two of the plants it operates have been out-of-service since 2013. As a result, its current actual capacity is calculated to be 1,415 thousand tonnes/day; and (iv) in terms of water supply and wastewater treatment capacity, the market share of our Company in the PRC water sector is approximately 0.25%, while the market share of our Company in the Yunnan water sector is 13.8%.

INDUSTRY OVERVIEW

Industry Drivers

Economic Environment

The steady and continuous growth of the PRC economy is a fundamental driver of the development of the water sector. At the same time, increased urbanisation and industrialisation rates, as well as the increase in per capita disposable income, have also resulted in an increase in demand for tap water supply and wastewater treatment services.

Policies and Regulations

The PRC water sector is a policy driven industry. In addition to the national 12th Five-year Plan, the 12th Five-Year Plan for National Environmental Protection Standards (“**NEPS Plan**”), promulgated by the MEP in January 2013, further requires that the revision of 600 various environmental protection standards be completed during the National 12th Five-year Plan period from 2011 to 2015. Such revision would increase the relevant standards applied in the water sector and encourage water companies to use advanced technologies to meet the increasing standards.

In order to cope with the increasing demand for wastewater treatment and water supply services, the relevant governmental authorities have issued the “12th Five-Year Plan” for Construction of National Municipal Wastewater Treatment and Reclamation Facilities (“**十二五**”全國城鎮污水處理及再生利用設施建設規劃) and the “12th Five-Year Plan” and 2020 Vision for Renovation and Construction of National Municipal Water Supply Facilities (全國城鎮供水設施改造與建設“**十二五**”規劃及2020年遠景目標), which stipulate detailed construction targets which require the local governments to speed up the construction of raw water supply, tap water supply, wastewater treatment and reclaimed water plants (the “**Water Plants**”).

According to the MOHURD, at end of 2013, there was still a considerable gap between the current construction and upgrade status of wastewater treatment facilities and the 2015 target. The target in 2015 is to increase the wastewater treatment capacity in the PRC to 208 million tonnes/day. In 2013, the capacity was 149 million tonnes/day. The PRC wastewater treatment industry, driven by government initiated-construction, will continue to experience significant growth. Meanwhile, the water sector enjoys preferential tax treatment including lower income tax rates and value added tax breaks, while local governments also provide subsidies to encourage the development of Water Plants. In addition, the PRC government places emphasis on reclaimed water production. In 2013, the State Council planned to increase the utilisation of reclaimed water for both industrial and domestic use to 20% by the end of 2015, which was 5% higher than the target in the 12th Five-Year Plan.

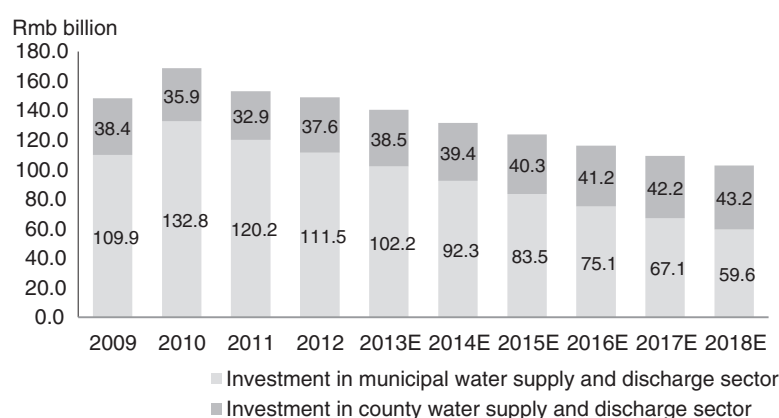
According to The Action Plan to Tackle Water Pollution in April 2015, 10 measures, including comprehensively controlling discharge of pollutants, enhancing scientific and technological support and making full use of a market-oriented system, will be implemented to help water enterprises strictly control emission standards, introduce advanced technologies and promote diversified investments, including introducing social capital and increasing government funding.

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Government Investment

The county-level water market is becoming the major market for water supply businesses due to the government's encouragement to invest in less-developed county areas. The proportion of county-level water supply and drainage investments among total investments in both county and municipal areas has been increasing and is expected to reach 40% of the total amount of investment at the city and county-level by 2018, according to EY Advisory.

Fixed Asset Investment in the PRC Water Supply and Discharge sector, 2009-2018



Sources: MOHURD, NBS, EY Advisory

Entry Barriers

Type of Barriers	Description
Capital barriers	• The construction of Water Plants and related ancillary facilities requires substantial funding • The investment payback period generally ranges from 5 to 10 years or longer
Geographical barriers	• There is regional/geographical exclusivity for Water Plants, and once a Water Plant is established or constructed in a region, there will be no other Water Plant in the vicinity
Policy barriers	• The construction of Water Plants is required to comply with the relevant local government development plan • Local governments have set numerous strict requirements and high standards for enterprises to enter the market, and closely supervise the performance of the investments in and operations of these enterprises • Local governments may impose additional policies and barriers to new entrants for the purpose of protecting local water enterprises

INDUSTRY OVERVIEW

Type of Barriers	Description
	Local governments have implemented strict entry requirements in respect of the tendering process and competitive negotiation process to acquire water projects from the local governments or their designees
Technical barriers	The technical requirements to meet the relevant national standards for drinking water and treated wastewater are becoming increasingly more stringent

Industry Development Trends

Mergers and acquisitions have become an important strategy for water enterprises to expand their businesses. Currently, large water enterprises with technological and capital advantages prefer to enter into new markets and increase their market share by acquiring existing local water companies. Mergers and acquisitions are also a popular way for large water enterprises to acquire projects from the government.

Electricity Supply and Electricity Price

Electricity costs represent a large portion of the production costs for water enterprises. In Yunnan, a tiered electricity price is implemented. For large industrial users, the price is approximately RMB 0.5/ kilowatt-hour, which has been in effect since 2011. In the future, national electricity prices may increase. However, such increases are not expected to have a significant influence on water enterprises because the government will adjust the water tariffs according to the fluctuation in utility costs.

Electricity Price for Large Industrial Users in Yunnan Province (RMB/kilowatt-hour)

<1KV	1-10KV	35-110KV	110KV	>220KV
—	0.516	0.492	0.480	0.468

Source: Price Administration Bureau of Yunnan Province

MUNICIPAL WATER SUPPLY INDUSTRY

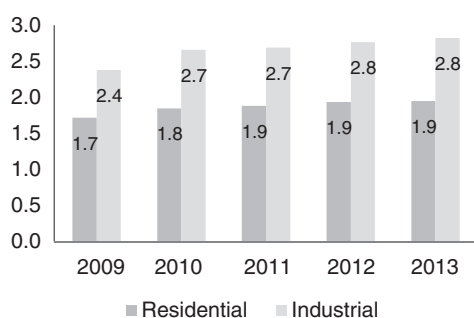
Water Supply Capacity and Water Supply Tariff

The municipal daily water supply capacity in the PRC increased by 18 million tonnes, amounting to a CAGR of 1.4%, from 2009 to 2013. Although the water supply is subject to the availability of local water resources, the designed capacity of water supply plants are usually sufficient to meet local industrial and residential demands. As a result, it is generally not necessary to expand Water Plants for the purpose of increasing supply capacity, and the overall water supply capacity has generally remained relatively stable.

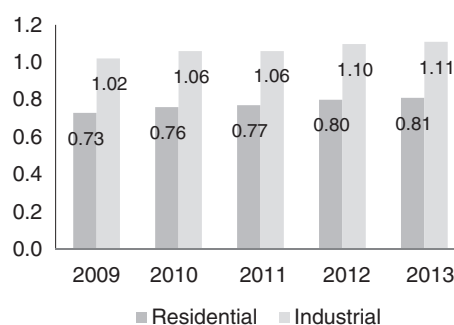
INDUSTRY OVERVIEW

Water supply tariffs are determined according to national and local laws and regulations. Water supply tariffs consist of four elements, namely, water resource fees, water supply prices, wastewater treatment fees and wastewater discharge fees. There are five types of water supply tariffs, namely, residential water supply tariffs, industrial water supply tariffs, administrative water supply tariffs, operation/service water supply tariffs and special water supply tariffs. By the end of 2013, the average residential water supply unit price (exclusive of wastewater treatment fees) in 31 capital cities and municipalities in the PRC was RMB1.9 per tonne and the average industrial water supply unit price (exclusive of wastewater treatment fees) was RMB2.8 per tonne, while the average residential wastewater treatment unit price was RMB0.81 per tonne and the average industrial wastewater treatment unit price was RMB1.11 per tonne.

Average Tap Water Supply Unit Price of Provincial Capitals in the PRC, 2009-2013
Rmb/tonne



Average Wastewater Treatment Unit Price of Provincial Capitals in the PRC, 2009-2013
Rmb/tonne



Sources: www.h2o-china.com, EY Advisory

Industry Demand and Supply

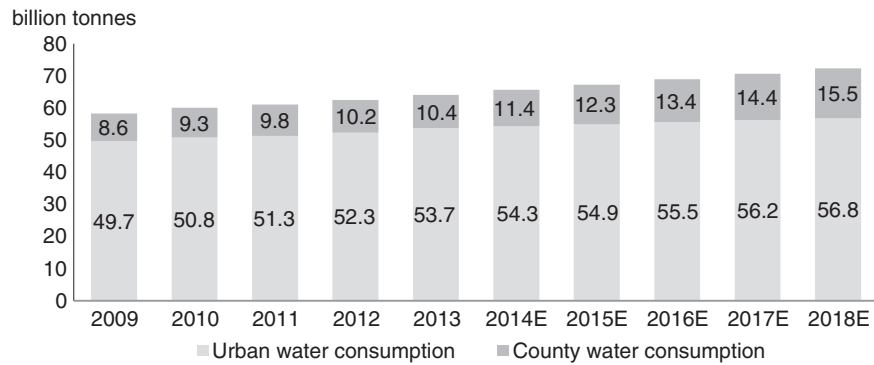
Many underdeveloped regions, such as second and third tier cities and most counties in the PRC, have not constructed sufficient Water Plants and are suffering from a shortage of clean tap water and/or excessive amounts of discharged untreated wastewater. As a result, there is a great demand for water supply and wastewater treatment services in these regions, particularly as the pace of urbanisation and industrialisation gather momentum.

Annual urban water consumption in the PRC was stable from 2009 to 2013. In 2013, per capita water consumption was 47 tonnes, comprising 84% of urban water consumption and 16% of county water consumption. According to EY Advisory, it is expected that in 2018, total annual county water consumption will increase to 15.5 billion tonnes, accounting for 21% of total water consumption, while urban water consumption will increase to 56.8 billion tonnes, accounting for 79% of total water consumption. Yunnan's water consumption accounted for 1% of the nationwide water consumption in 2013. In Yunnan province, 70% of the water consumption was urban consumption while 30% was county consumption. In addition, water consumption in major provinces, such as Xinjiang, Shangdong and Jiangsu, where our Company has water projects, is expected to increase in the future.

INDUSTRY OVERVIEW

According to EY Advisory, it is predicted that in the next five years, the absolute value of water consumption will continue to grow at a CAGR of 1.1% in urban areas and 8.1% in county areas.

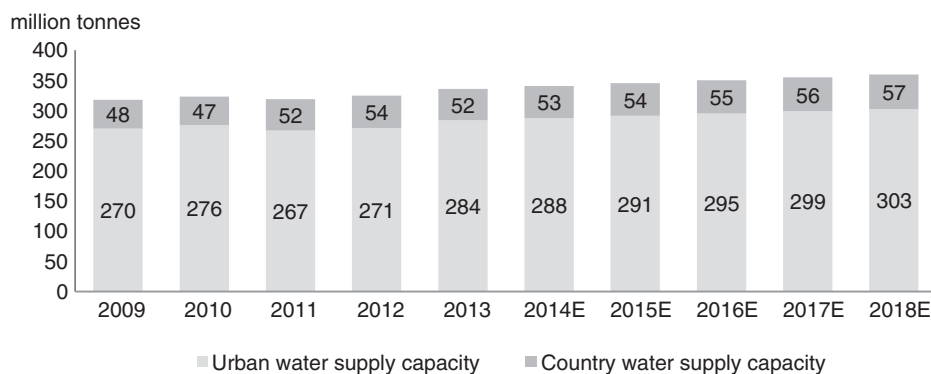
Composition of Annual Municipal Water Consumption, 2009-2018



Sources: MOHURD, NBS, EY Advisory

The composition of municipal water supply capacity was relatively stable from 2009 to 2013 and grew at a CAGR of 1.4%. During the same period, county water supply capacity grew from 15% to 19% of the total municipal water supply capacity. According to EY Advisory, it is predicted that in the next five years, the water supply capacity will continue to grow at a CAGR of 1.3% in urban areas and 2.0% in county areas. According to the “12th Five-Year Plan”, 43.6% of new water supply facilities to be constructed are expected to be constructed in counties and major towns, which shows great growth potential for the development of water supply facilities in such areas.

Composition of Daily Municipal Water Supply Capacity, 2009-2018



Sources: MOHURD, NBS, EY Advisory

INDUSTRY OVERVIEW

In the water supply industry, demand growth is higher than capacity growth. Furthermore, water demand in county areas increases faster than water demand in urban areas. As a result, a demand and supply disequilibrium exists, especially in county areas, which will lead to ample opportunities for regional players to expand and fill the gap.

Profitability and Competitive Landscape

The water supply industry's gross margin increased from 2.1% in 2010 to 5.8% in 2013 as the PRC government gradually opened up the water supply industry to private enterprises. By the end of 2013, the total number of water supply companies in the PRC had reached 998, with 32% of such companies generating a loss. Because there is currently a relatively low degree of marketisation in the water supply industry in the PRC, with various companies having been converted from state-owned organisations, and because a large number of water facilities from remote areas in the PRC generally recognise a lower gross margin, the profitability of water supply companies in the PRC is expected to improve in the future. Along with market-oriented reform, the business model of the water supply industry became "government licensing, government procurement and private enterprise operating". Under this business model, water supply companies supply water to end users under a concession agreement granted by the government during a concession period in the specific permitted regions in return for service fees to be paid by such end users, principally based on the monthly water volume consumed.

At present, the major players in Yunnan's water supply market include Competitor A (1,415,000 tonnes/day), Competitor C (200,000 tonnes/day), Competitor D (150,000 tonnes/day) and Competitor E (116,000 tonnes/day). All of these water supply enterprises are local SOEs.

Top 5 Yunnan-based Water Supply Enterprises by Facility and Capacity, 2013

Company	Number of facilities	Ranking	Capacity (1,000 tonnes/day)	Ranking	Market Share in Yunnan
Our Company	15	1	428	2	6.1%
Competitor A	10	2	1,415	1	27.0%
Competitor E	10	2	116	5	2.2%
Competitor C	3	3	200	3	3.8%
Competitor D	3	3	150	4	2.9%

Sources: annual reports for listed companies 2013, company websites, H2O-china. com, EY Advisory

INDUSTRY OVERVIEW

MUNICIPAL WASTEWATER TREATMENT INDUSTRY

Production Capacity and Operation Load Rate⁽¹⁾

The national daily municipal wastewater treatment capacity increased from 106 million tonnes in 2009 to 149 million tonnes in 2013, representing a CAGR of 8.9%. According to EY Advisory, by 2018, the annual treatment volume is expected to reach 79.4 billion tonnes and the daily treatment capacity is expected to reach 228 million tonnes.

Since 2010, the PRC Government's emphasis on wastewater treatment development has switched from 'quantity' to 'quality'. During the "11th Five-year Plan" period, the number of wastewater treatment plants nationwide grew rapidly. However, by the end of 2009, there were still 263 wastewater treatment plants in operation, representing 13% of the total number of wastewater treatment plants in operation, which failed to meet the requirement that the operation load rate should be no less than 60% for plants in operation for more than one year and no less than 75% for plants in operation for more than three years. Since 2010, the wastewater treatment capacity growth rate has slowed down, and the operation load rate of municipal wastewater treatment facilities reached 82.6% by the end of 2013.

Industry Demand and Supply

Municipal wastewater in the PRC mainly includes residential wastewater and industrial wastewater. In 2013, the total wastewater discharge volume was 71.6 billion tonnes, which was 4.6% higher than in 2012. Since 2009, annual wastewater has increased at a CAGR of 4.6% every year. In 2013, discharged residential wastewater accounted for 70% of the total discharged wastewater. Residential wastewater discharge volume continued to increase largely due to natural population growth and urban development.

According to EY Advisory, the amount of residential wastewater discharge will continue to increase by approximately 7% per year to reach 70.3 billion tonnes by 2018. By the end of 2013, the total volume of discharged wastewater was 1.3 billion tonnes in Yunnan. Such amount is expected to reach 1.7 billion tonnes by 2018. According to EY Advisory, it is predicted that in the next five years, residential wastewater discharge will continue to grow at a CAGR of 7.1% and industrial wastewater discharge will continue to decrease at a CAGR of -2.1%, resulting in a growth in total wastewater discharge at a CAGR of 4.6%.

In 2013, industrial wastewater discharge comprised 30%, and residential wastewater discharge comprised 70%, of the total wastewater discharge in the PRC. According to EY Advisory, it is expected that in 2018, annual industrial wastewater discharge will decrease to 19.5 billion tonnes, comprising 22% of the total wastewater discharge volume in the PRC,

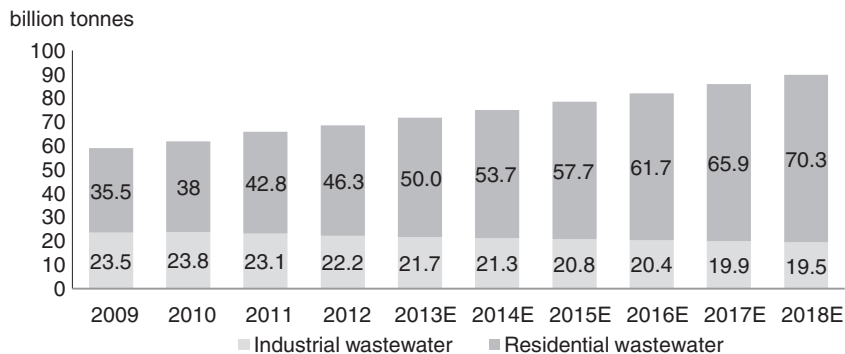
Note:

(1) Operate Load Rate = daily treatment volume/daily designed capacity x 100%

INDUSTRY OVERVIEW

while annual residential wastewater discharge will grow to 70.3 billion tonnes, comprising 78% of the total wastewater discharge volume in the PRC. According to EY Advisory, as the major component of wastewater discharge in the PRC, residential wastewater will remain the main focus of the wastewater treatment industry in the future, and will provide opportunities for enterprises that operate in this field.

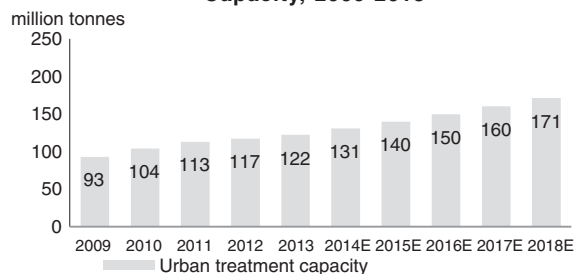
Composition of Municipal Wastewater Discharge, 2009-2018



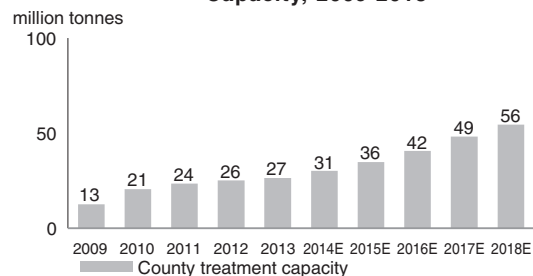
Sources: MEP, EY Advisory

In the future, the growth rate of the supply of wastewater treatment services at the county level is expected to be higher than in urbanised first tier cities. From 2009 to 2013, the wastewater treatment capacity at the county level increased at an average annual rate of 18% while the CAGR for municipal wastewater treatment capacity was only 7%. The scale, capacity and technology of wastewater treatment facilities in county areas are all relatively inferior compared with urban areas. As a result, county areas will be the focus of much of the industry expansion and growth in the future. EY Advisory estimates that, by the end of 2018, the daily urban wastewater treatment capacity will increase to 171 million tonnes and county wastewater treatment capacity will reach 56 million tonnes.

Daily Urban Wastewater Treatment Capacity, 2009-2018



Daily County Wastewater Treatment Capacity, 2009-2018



Sources: MEP, EY Advisory

INDUSTRY OVERVIEW

Profitability and Competitive Landscape

Similar to the water supply industry, the average profitability of wastewater treatment companies was also lower in the last five years. In 2013, the average gross margin of companies in the wastewater treatment industry was 12.3%. Of the 247 wastewater treatment companies, the number of companies which recorded a loss was 31, which comprised 12.6% of the total number of wastewater treatment companies. The business model for the wastewater treatment industry is “government licensing, government procurement and private enterprise operation”. Generally, the local governments are the customers for wastewater treatment services and undertake the payment obligations.

Revenue from the wastewater treatment industry is sensitive to the unit price and volume of treated wastewater. Any increase in the unit price and volume of treated wastewater will lead to an increase in a company’s income. The volume of discharged wastewater is dependent on the amount of incoming wastewater to be treated by the plants.

At present, the major players in Yunnan’s wastewater treatment market include Competitor B (1,255,000 tonnes/day), Competitor C (80,000 tonnes/day), Competitor F (80,000 tonnes/day) and Competitor G (54,000 tonnes/day). All of these wastewater treatment enterprises are local SOEs.

Top 5 Yunnan-based Wastewater Treatment Enterprises by Facility and Capacity, 2013

Company	Number of facilities	Ranking	Capacity	Ranking	Market Share in Yunnan
			(1,000 tonnes/day)		
Our Company	56	1	872	2	26.2%
Competitor B	9	2	1,255	1	39.0%
Competitor F	2	3	80	3	2.5%
Competitor C	1	4	80	3	2.5%
Competitor G	1	4	54	4	1.7%

Sources: annual reports for listed companies in 2013, company websites, H2O-china.com, EY Advisory

REGULATORY ENVIRONMENT

OVERVIEW

We are one of the leading integrated service providers in the municipal wastewater treatment and water supply industries in Yunnan. Our business is subject to relevant laws, regulations and policies of the PRC and under supervision of PRC government authorities. Our business operations in the PRC are subject to the laws and regulations regarding environmental protection, labour protection and concession arrangements in municipal public utilities projects including wastewater treatment, water supply and waste disposal projects. Any violation of those laws and regulations would have a negative impact on our business operations and future development.

CAPITAL FUND SYSTEM

In accordance with the Notice of the State Council on Trial Implementation of Capital Fund System in Fixed Asset Investment Projects (《國務院關於固定資產投資項目試行資本金制度的通知》) promulgated and implemented by the State Council on 23 August 1996, the Opinion on Utilizing Foreign Funds in the Construction of Municipal Public Utilities (For Trial Implementations) (《關於城市市政公用設施建設利用外資工作的意見(試行)》) promulgated and implemented by the former Ministry of Construction (now known as Ministry of Housing and Urban-Rural Development, as referred to hereinafter) on 20 May 1997, the Notice on Issuing Opinion about Advancing Industrialization of Urban Wastewater and Garbage Treatment (《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意見的通知》) promulgated and implemented by the NDRC, the former Ministry of Construction and the former State Environmental Protection Administration (now known as the Ministry of Environmental Protection, as referred to hereinafter) on 10 September 2002, and the Notice of the State Council on Adjusting the Proportions of Capital Fund in Fixed Asset Investment Projects (《國務院關於調整固定資產投資項目資本金比例的通知》) promulgated and implemented by the State Council on 25 May 2009, the capital fund system is applied in fixed asset investment projects.

Under the capital fund system, investors must contribute a certain proportion of capital as the project company's capital funds. The proportion of such contribution in wastewater treatment, water supply and municipal waste disposal projects must be no less than 20% of the total project investment amount and the specific proportion will be determined by the approval authority of that project when reviewing the feasibility research report, taking into consideration the project's future economic benefits, banks' willingness to grant loans and appraisal opinions.

CONCESSION IN MUNICIPAL PUBLIC UTILITIES PROJECTS

According to the Opinion on Accelerating the Marketization of Municipal Public Utilities Industry (《關於加快市政公用行業市場化進程的意見》) promulgated and implemented by the former Ministry of Construction 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 the former 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

REGULATORY ENVIRONMENT

Utilities (《建設部關於加強市政公用事業監管的意見》) promulgated and implemented by the former Ministry of Construction on 10 September 2005 (collectively referred to as the “**Tender Measures**”), the relevant regulations governing the grant of concession rights for municipal public utilities projects are applicable to municipal public utilities projects including wastewater treatment, water supply and waste disposal projects. Government authorities should select investors or operators of municipal public utilities projects through public bidding according to relevant regulations, and enter into concession agreements to grant concession rights with them. The Tender Measures require written concession agreements to be entered into for all municipal public utilities projects prior to the commencement of a concession period. For any concession projects which fail to comply with such requirement, the Tender Measures also require that rectification can be made by entering into written concession agreements in a timely manner.

According to the Measures for the Administration on the Concession of Infrastructure and Public Utilities (《基礎設施和公用事業特許經營管理辦法》) which was promulgated by the NDRC, the Ministry of Finance, the Ministry of Housing and Urban-Rural Development, the Ministry of Transport, the Ministry of Water Resources and the People’s Bank of China on 25 April 2015 and will be implemented on 1 June 2015, the competent departments of the relevant industry in people’s governments at or above county level or the departments authorised by the governments, may, in accordance with the needs of economic and social development, as well as the proposals for concession projects made by the relevant legal persons and other organisations, etc., put forward the implementation plans of concession projects. The implementing organisations shall, in accordance with the approved implementation plans of concession projects, select the grantees of concession rights through bidding, competitive negotiation and other competitive modes. A concession agreement may, in accordance with the relevant laws, administrative regulations and national regulations, prescribe that the grantees of concession rights could gain earnings by charging users. When the charges are insufficient to cover the construction and operating costs of concession projects and the reasonable earnings, the governments may provide feasibility gap subsidies, including other relevant development and operation rights and interests granted by the governments for concession projects.

Terms of Concession Rights

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 Notice on Issuing Opinion about Advancing Industrialization of Urban Wastewater and Garbage Treatment by the National Development and Planning Commission, the Ministry of Construction and the 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意見的通知》) promulgated and implemented on 10 September 2002, the terms of concession rights for municipal public utilities projects should not exceed 30 years. After the expiration of the term, governments should re-select the concessionaire by relevant procedures.

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Pricing

According to the Regulations on Urban Drainage and Sewage Treatment (《城镇排水与污水处理条例》) promulgated on 2 October 2013 and implemented on 1 January 2014 by the State Council, where the concession operation contract or the contract on entrusted operation involves the reduction of pollutants and service fees for sewage treatment operation, the competent departments of urban drainage shall consult competent departments of environmental protection and competent price departments. The State encourages the implementation of a concession system for urban sewage treatment. Specific measures in this regard shall be formulated by the competent department of housing and urban-rural development of the State Council in conjunction with other relevant departments of the State Council.

According to the Measures for the Administration on the Price of Municipal Water Supply (《城市供水价格管理办法》) promulgated on 23 September 1998 and amended on 29 November 2004 by the former NDRC and the former Ministry of Construction, the sewage treatment fees shall be calculated into the price of municipal water supply and collected according to both the range for municipal water supply and the volume of water used by consumers. The competent price departments of the government at or above county level shall be the competent departments for the municipal water supply price. In determining the price of municipal water supply, a hearing system and an announcement system shall be adopted. The price of municipal water supply consists of the costs of water supply, expenses, taxes and profits. The standard for sewage treatment fees shall be determined according to the fees on the operation, maintenance and construction of municipal drainage pipeline networks and sewage treatment plants. A municipal water supply enterprise shall apply in writing to the competent price departments of the local municipal people's government and send a duplicate of the price-adjusting declaration documents to the competent departments of municipal water supply at the same level when there is a need to adjust the price of water supply. The adjustment for the price of the municipal water supply shall be examined and verified by the competent price departments of the local municipal people's government, carried out upon the approval by the local municipal people's government and reported to the competent price departments and competent departments for the administration of water supply for record. After the receipt of the application for the price adjustment of municipal water supply, the municipal price competent departments shall hold hearings, inviting the NPC delegates and CPPCC members, relevant departments and representatives of consumers from all sectors to participate in. For those main municipal water supply projects of constructing, maintaining the water supply facilities and putting them into services, such as the connection of the pipeline networks with the consumers, the capacity increase and the maintenance of the pipeline networks, and the installation of measuring instruments, etc., which are consumers-related and monopolistic, the price standards of labour, important raw materials and infrastructure shall be determined by the competent price departments of local municipal people's government and the competent departments for the administration of municipal water supply at the same level. Different on-grid water prices adopted by different water supply enterprises are permitted if there are water plants or pipeline networks operating independently in the city. However, for the consumers of the same kind, the same price shall be adopted.

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According to the Circular of the NDRC, the Ministry of Finance, the Ministry of Housing and Urban-Rural Development on the Relevant Issues concerning the Formulation and Adjustment of the Charging Standard for Sewage Treatment (《國家發展改革委、財政部、住房城鄉建設部關於制定和調整污水處理收費標準等有關問題的通知》) promulgated and implemented on 21 January 2015, the charging standard for sewage treatment shall be formulated and adjusted on the comprehensive consideration of such factors as the situation of water pollution prevention and control and the bearing capacity of the economy and society of the region according to the principles of “Polluter-pays, Equitable Burden Sharing, Cost-reimbursement, Reasonable Profit Gaining”.

The charging standard shall be set for the compensation of the operating cost of sludge disposal facilities and the reasonable profit gaining. By the end of 2016, the charging standard for sewage treatment of cities shall be adjusted to be not less than RMB0.95 per ton for residents, and not less than RMB1.4 per ton for non-residents in principle; the charging standard for sewage treatment of counties and the key designated towns shall be adjusted to be not less than RMB0.85 per ton for residents, and not less than RMB1.2 per ton for non-residents in principle.

When the charging standard for sewage treatment has reached the minimum, but not been sufficient for the compensation of the cost and the reasonable profit gaining, it shall be raised in combination with the situation of pollution prevention and control and so forth. As for the cities, the counties and the key designated towns in which the sewage treatment fees have not been collected, the sewage treatment fees shall be collected by the end of 2015 at the latest, and the sewage treatment plants shall be built and put into operation within three years.

In formulating and adjusting the charging standard for sewage treatment, each local government shall go through the pricing procedures including the cost supervision for sewage treatment enterprises, the expert panel discussion and the group review in accordance with the law, ensure the scientificity, fairness and transparency of formulating the charging standard for sewage treatment by the government, widely accept social supervision and protect the legitimate rights and interests of consumers and operators.

Water Quality

The water quality of the domestic drinking water provided by the means of various centralised and non-centralised water supply in urban and rural areas should comply with the standards set out in the Standards for Drinking Water Quality (《生活飲用水衛生標準》)(GB 5749-2006) promulgated on 29 December 2006. 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 Plant (《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》) promulgated on 11 May 1984 and amended on 15 May 1996 and 28 February 2008, the company operating centralised treatment facilities for municipal wastewater is responsible for the quality of the effluent from the wastewater treatment plants.

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Government Supervision

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》), provincial construction bureaus are the primary regulators supervising the operation of local public utility concession projects (including municipal wastewater treatment, water supply and waste incineration and power generation projects), and the government's supervision of operators on concession rights regarding these projects mainly includes the following:

A. *Routine supervision*

The authorities in charge of supervising the municipal public utilities shall carry out periodic spot checks on the quality of the product and service provided by public utilities operators and shall monitor the cost of product and service from municipal public utilities.

B. *Mid-term assessment*

During the course of project operation, the authorities in charge of supervising the municipal public utility operators shall organise experts to carry out mid-term assessment on the performance of the operators who have acquired the concession; such assessment cycle shall be carried out at least every two years. Under special circumstances, the supervisory authorities may carry out annual assessments.

C. *Supervision of material matters*

Unless it is otherwise authorised by the government in advance, municipal public utilities operation enterprises should not transfer or lease their concession rights, dispose or mortgage project assets, shut down or wind up without permission during the concession period. If an enterprise which has been granted concession rights intends to unilaterally terminate the concession agreement within its valid period thereof, it shall apply to the supervisory authority in advance. Before such authority's approval on its cancellation, the relevant enterprise shall maintain its ordinary business and service.

D. *Consequences of violations*

Where an enterprise which has been granted concession right is involved in any one of the following conducts during the concession period, the competent authority shall terminate the relevant concession right according to law, and may take over the enterprise temporarily:

- (1) Transfer or lease the concession rights without authorization;
- (2) Dispose of or mortgage business assets without authorization;

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- (3) Occurrence of any material quality or production safety accident due to poor management;
- (4) Close out or shut down without permission, which seriously affects public interest and safety; and
- (5) Other conduct prohibited by laws and regulations.

BUSINESS QUALIFICATIONS AND LICENSES

Health Permit

According to the Measures for the Administration on the Health Supervision of Domestic Drinking Water (《生活飲用水衛生監督管理辦法》) promulgated by the former Ministry of Construction and Ministry of Health on 1 September 1996, implemented on 1 January 1997 and amended on 1 November 2002, 19 May 2004 and 12 February 2010, the state implements the health permit system for the water supply units and the products involving the drinking water safety. The drinking water supplied by the water supply units shall accord with the national sanitary standards for drinking water. Centralised water supply units must obtain a health permit issued by the health administrative departments of the local people's governments at or above the county level.

The term of validity of a health permit certificate is four years, and it would be reviewed once a year. The water supply units shall reapply for the recertification within 6 months prior to its expiration.

Qualifications for Municipal Water Supply Enterprises

According to the Decisions of the State Council on the Cancellation of the First Batch of the Items Requiring Administrative Approval (《國務院關於取消第一批行政審批項目的決定》) promulgated and implemented on 1 November 2002, the administrative licensing matter regarding the examination and approval of the qualifications for municipal water supply enterprises has been cancelled.

According to the Regulation on Urban Construction in Yunnan Province (《雲南省城市建設管理條例》) which was promulgated on 30 November 1994 and implemented on 1 January 1995 and revised on 29 June 2004 and 30 November 2006, an enterprise operating the business of supplying gas and water may engage in production and operating activities only after being issued an operating permit by the provincial administrative department of construction.

Water Intake Permit

According to the Water Law of People's Republic of China (《中華人民共和國水法》) promulgated by the Standing Committee of National People's Congress on 29 August 2002 and implemented on 1 October 2002, the Regulations on Administration of Water Intake Permit and Collection of Water Resources Charges (《取水許可和水資源費徵收管理條例》) promulgated on

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21 February 2006 and implemented on 15 April 2006 by the State Council and the Measures on Administration of Water Intake Permit (《取水許可管理辦法》) promulgated and implemented on 9 April 2008 by the Ministry of Water Resources, except for those who are not required to apply for water intake permit under the legal requirements, entities and individuals which obtain water resources from rivers, lakes and underground water and have water extradiation works or facilities completed and operated for over 30-day, shall apply for water permit to the competent water administration department of the municipal government at county level or above or river conservancy commission in accordance with the requirements of the State water intake permit system and the institution of compensated use of water resources, and obtain the water rights with paying water resources fee. Water intake entities or individuals shall extract water according to the approved annual water intake plan. In the event that the water extraction exceeds the limit under the plan or a fixed amount, water resources fee shall be paid on the excess part.

Water permit generally lasts for five years but not more than ten years. Upon the expiration of the valid term, water intake entities or individuals who seek for extension shall submit their applications to the former approval authorities within 45 days prior to the expiration.

Qualifications for the Operation of Environmental Pollution Treatment Facilities

According to the Measures for the License 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 State Environmental Protection Administration on 30 April 2012 and implemented on 1 August 2012, the operator of environmental pollution control facilities shall apply for the Qualification Certificate for Operation of Environmental Pollution Treatment Facilities (環境污染治理設施運營資質證書) from the State Environmental Protection Administration and shall conduct the business of operating environmental pollution treatment facilities according to the provisions of the qualification certificate. Qualifications for the operation of environment pollution treatment facilities shall be subject to classified and graded administration. Qualifications for the operation of environment pollution treatment facilities are sub-divided into specific types as domestic sewage, industry waste water, dust extraction, desulfurization and desulfurization, industrial exhaust gas, industrial solid waste (excluding hazardous waste), organic waste, domestic garbage and automatic continuous monitoring. Qualifications for the operation of automatic continuous monitoring facilities are classified into Grade B qualifications and temporary qualifications, and qualifications for other environment pollution control facilities are classified into Grade A qualifications, Grade B qualifications and Temporary qualifications. Grade A and Grade B qualifications for the operation of environmental and pollution treatment facilities are valid for 5 years while temporary qualifications are valid for 2 years.

Pursuant to the Decisions of the State Council on the Cancellation and Delegation of the Items Requiring Administrative Approval (《國務院關於取消和下放一批行政審批項目的決定》) promulgated and implemented on 28 January 2014, the Grade A qualification recognition of environmental protection and pollution treatment facilities operation entities by the Ministry of Environmental Protection has been abolished. According to the Decisions of the Ministry of

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Environmental Protection on the Abolishment of “the Measures for the License Administration of Qualification for Operation of Environmental Pollution Treatment Facilities” (環境保護部關於廢止<環境污染治理設施運營資質許可管理辦法>的決定)) promulgated and implemented on 4 July 2014 and the Circular of the General Office of the Ministry of Environmental Protection on Doing the Follow-up Work after the Cease of the Implementation of the License for Operation of Environmental Pollution Treatment Facilities Well (《環境保護部辦公廳關於做好停止實施環境污染治理設施運行許可後續工作的通知》) promulgated and implemented on 9 June 2014, the qualification recognition of environmental protection and pollution treatment facilities operation entities by the Ministry of Environmental Protection has been cancelled.

Wastewater 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》) revised on 28 February 2008 and implemented on 1 June 2008 and its detailed rules for the implementation, an enterprise operating centralised treatment facilities of urban wastewater shall obtain the Wastewater Discharge Permit; It is forbidden for enterprises and institutions to discharge waste water and wastewater water without discharge permit or in violation of the provisions of the discharge permit.

Pricing Policy for Waste Incineration and Power Generation

According to the NDRC's Notice in relation to the Optimization of Waste Incineration and Power Generation Tariff Policy (NDRC Prices [2012] No. 801)(《國家發展改革委關於完善垃圾焚燒發電價格政策的通知》(發改價格[2012]801號)) promulgated by the NDRC on March 28, 2012 and implemented on April 1, 2012, for waste incineration and power generation projects approved after January 1, 2006 which use domestic waste as a raw material, the on-grid electricity is first calculated based on waste treatment capacity. Each ton of domestic waste received is temporarily set at 280kWh of on-grid electricity and is priced at the standard electricity price of RMB0.65/kWh (including tax). The remaining on-grid electricity is priced based on an on-grid tariff for local coal-fuelled generators. If the on-grid electricity generated by waste treatment is less than 50% of the actual on-grid electricity, the relevant project will be considered a conventional power generation project which is not entitled to subsidies for waste incineration and power generation. However, if the converted on-grid electricity is higher than 50% of the actual on-grid electricity, the converted on-grid electricity will be treated as on-grid electricity for waste incineration and power generation. When the converted on-grid electricity is higher than the actual on-grid electricity, the actual on-grid electricity will be considered on-grid electricity for waste incineration and power generation.

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License for Municipal Waste Disposal

According to Management Rules on Municipal Waste Disposal (Decree No.157 of the Ministry of Construction) (《城市生活垃圾管理辦法》(建設部第157號)) promulgated on 28 April 2007 and implemented on 1 July 2007 by the former Ministry of Construction, entities which are engaged in municipal waste disposal are required to obtain a license for the treatment of domestic waste from the competent departments of construction (or environment and health) at the municipal, town and county level. Those who fail to obtain a license for municipal waste disposal are prohibited from conducting any activities in relation to municipal waste disposal.

The competent departments of construction (or environment and health) at the municipal, town and county level determine whether or not to issue a license for municipal waste disposal through fair competition methods, such as a tender, and issue such licenses to the winners accordingly. Upon the expiration of a license for municipal waste disposal, entities which continue to be engaged in municipal waste disposal are required to apply for an extension from the authority that issued the original license within 30 days prior to its expiration.

Electric Power Business License

According to the Regulations on Supervision of Electric Power (Decree No.432 of the State Council)(《電力監管條例》(國務院令第432號)) promulgated on February 15, 2005 and implemented on May 1, 2005 by the State Council and the Regulations on the Administration of Power Business Permit (Decree No.9 of the State Electricity Regulation Commission) (《電力業務許可證管理規定》(國家電力監管委員會令第9號)) promulgated on October 13, 2005 and implemented on December 1, 2005 by the former Electricity Regulation Commission, anyone who wishes to operate an electric power business within the PRC is required to obtain an electric power business license from the electricity regulatory authorities. Entities and individuals who fail to obtain an electric power business license are not allowed to conduct any electric power business.

An electric power business license is valid for 20 years. Upon the expiration of an electric power business license, licensees who seek for renewal are required to submit their application to the electricity regulatory authorities within thirty days prior to the expiration.

Work Safety License

According to Regulation on Work Safety Licenses (《安全生產許可證條例》) promulgated and implemented on 13 January 2004 and revised on 15 May 2013, 18 July 2013, 28 January 2014 and 29 July 2014, the state applies a work safety licensing system to enterprises engaged in construction. Before starting production, a construction enterprise shall apply for the work safety license to the department in charge of the issuance and administration of work safety licenses. No construction enterprises may engage in production activities without work safety licenses.

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The administrative departments of construction under the people's governments of provinces, autonomous regions, and municipalities directly under the Central Government shall be in charge of issuance and administration of work safety licenses for construction enterprises, and be subject to the guidance and supervision of the administrative department of construction under the State Council. The valid period for a work safety license shall be 3 years.

Construction Enterprise Qualification

According to the Measures of Regulation on Construction Enterprise Qualification (《建築業企業資質管理規定》) promulgated on 22 January 2015 and implemented on 1 March 2015, Class 2 qualification of general contractors shall be issued by the competent departments of construction under the government of province, autonomous region and municipality where the enterprise registered its business license, and Class 3 qualification of general contractors shall be issued by the competent departments of construction under the government of the city with districts where the enterprise registered its business license, and the qualification certificate is valid for 5 years.

PRC LAWS AND REGULATIONS RELATING TO ENVIRONMENTAL PROTECTION

According to the Environmental Protection Law of the PRC (《中華人民共和國環境保護法》) promulgated and implemented on 26 December 1989 by the NPC Standing Committee, entities which caused environmental pollution and other public hazards shall adopt effective measures to prevent and control the pollution and harm done to the environment. The design, construction and commission of facilities for prevention and control of pollution shall be conducted at the same time with that of the main body of the construction project. No permission shall be given for a construction project to be commissioned or used until its facilities for the prevention and control of pollution are examined and accepted by the competent administrative department of environmental protection. The amended Environmental Protection Law of the PRC was promulgated on 24 April 2014, and has been implemented on 1 January 2015.

In addition to the provisions contained in the former Environmental Protection Law of the PRC, the amended Environmental Protection Law of the PRC added the following key provisions:

- The State adopts policies and measures relating to finance, taxation, pricing and government procurement to encourage and support the development of environmental protection industries related to environmental protection technologies and equipment, the integrated use of resources and environmental services. When enterprises, public institutions and other producers and business operators reduce pollution levels beyond the statutory discharge standards, the relevant government entities extend encouragement and support through fiscal assistance and favourable taxation, pricing and government procurement policies.

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- Equipment for the prevention and control of pollution at a construction project must be designed, built and commissioned together with the principal part of the project. Equipment for a pollution prevention and control facility must comply with the requirements of the approved environmental impact assessment report and must not be dismantled or left idle without authorization.
- The State shall adopt a pollution administrative permit system in accordance with the law. Enterprises, public institutions and other producers and business operators are required to discharge pollutants in accordance with the requirements of their permits. No pollutant discharge is allowed without a pollutant discharge permit.
- When an enterprise, public institution or other producer or business operator is fined for the illegal discharge of pollutants, is ordered to make corrections, and refuses to make such corrections, the administrative organisation that decreed the punishment may impose a fine on a daily basis according to the original amount of the fine starting from the second day of the date of the ordered correction. The fine shall be enforced with consideration given to the operating costs for a pollution prevention and control facility and any direct loss or illegal gains resulting from such violation. Local regulations may extend the number of activities subject to the daily-based fine as stipulated above.
- For construction projects which commence construction of a project prior to submitting the environmental impact assessment reports or prior to having such reports approved, the competent government departments with environmental protection supervision responsibilities shall order them to cease construction, impose fines or penalties, and may require restoration of the construction sites.

According to the Environmental Impact Assessment Law of the PRC (《中華人民共和國環境影響評價法》) promulgated on 28 October 2002 and with effect from 1 September 2003 and the Rule on Classification for Environmental Impact Assessment of Construction Projects (《建設項目環境影響評價文件分級審批規定》) promulgated by the Ministry of Environmental Protection of the PRC 16 January 2009, and with effect from 1 March 2009, the PRC government has established a system to appraise the environmental impact of construction projects and classify the appraisal based on the degree of environmental impact caused by the construction project. In the event of significant environmental impact, an environmental impact appraisal report shall include a comprehensive appraisal on the possible environmental impact; in the event of slight environmental impact, an environmental impact report shall include an analysis or appraisal on the environmental impact; and in the event of minimal environmental impact, no environmental impact appraisal is required but an environmental impact form shall be filed. The registered report should be approved by competent administrative department before starting construction.

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According to the Rules on the Administration concerning Environmental Protection of Construction Projects (《建設項目環境保護管理條例》) promulgated and implemented on 29 November 1998 and the Regulations on Administration concerning the Environmental Protection Acceptance Check on Construction Projects (《建設項目竣工環境保護驗收管理辦法》) promulgated on 27 December 2001 and implemented on 1 February 2002 by the former State Environmental Protection Administration and amended on 22 December 2010, a construction entity shall, before commencing the trial production of a construction project, submit an application for trial production to the competent administrative department of environmental protection with approval rights. A construction entity shall also, before the construction project being put into production or use, file an application with the competent administrative department of environmental protection with approval rights for acceptance checks on environmental protection of the completed construction project.

Furthermore, 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》) revised on 28 February 2008 and implemented on 1 June 2008 and its relevant implementing regulations, an enterprise operating centralised treatment facilities of urban wastewater shall obtain the Wastewater Discharge Permit.

According to The Action Plan to Tackle Water Pollution (《水污染防治行動計畫》) (the “**Water Action Plan**”) promulgated and implemented on 2 April 2015, the targets of the Water Action Plan are that (i) by 2020, China’s water environment quality will gradually improve; the percentage of severely polluted water bodies will be greatly reduced and the quality of drinking water will be improved; groundwater overdraft will be reduced; the aggravated pollution of groundwater will be preliminarily controlled; the environmental quality of offshore areas, and the aquatic ecosystem in areas such as the Beijing-Tianjin-Hebei Region, will be improved; and (ii) by 2030, the government will work to improve the quality of the ecological environment and realise the virtuous circle of ecosystem by the middle of the 21st century. In order to realise these targets, the following 10 measures will be adopted: (i) discharge of pollutants will be further controlled and emission reduction measures will be implemented to tackle pollution caused by industries, urban living, agriculture and the rural sector, ships and ports; (ii) economic restructuring and upgrading will be further boosted. Industrial water, reclaimed water and seawater will be used to promote cyclic development; (iii) various measures will be implemented to continue saving and protecting water resources. A strict management system of water resources will be implemented so as to control the overall use of water, improve water-use efficiency and protect the ecological flows of key rivers; (iv) scientific and technological support will be further improved. Advanced technologies will be promoted and fundamental research will be strengthened. The environmental protection industry will be further regulated and the authorities will promote the development of the environmental protection service industry; (v) relevant government authorities will make efforts to promote water price reform, improve taxation policies, facilitate diversified investment and establish an incentive mechanism that promotes water environment treatment; (vi) relevant law enforcement and supervision will be stricter, and environmental violations and illegal construction projects will be severely punished; (vii) management of water environment will be further strengthened. The relevant government authorities will strictly control the amount of pollutants and the environmental risks; (viii) relevant government authorities will make efforts to ensure the safety of aquatic ecosystem, including ensuring the safety of drinking water

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sources, controlling underground water pollution and pollution in major river basins, and strengthening the protection of water bodies and the ocean environment. By the end of 2017, foul water in urban built-up areas shall be basically eliminated; (ix) duties of various government authorities and enterprises will be more clarified. Local governments should be more responsible for the protection of the water environment. The central government will check the implementation of the Water Action Plan in different basins, regions and sea areas every year. The enterprises discharging water pollutant shall strictly comply with the relevant laws and regulations; and (x) public participation and community supervision will be improved, and the governments will regularly publish information in relation to water environment according to relevant laws and regulations.

LAND, PLANNING AND CONSTRUCTION PERMITS

Land use rights

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

According to the Catalogue of the Allotted Land (《劃撥用地目錄》) promulgated and implemented on 22 October 2001, the land use rights of construction projects which are in conformity with the Catalogue can only be allotted through application by the construction units and approval of the people's government with the approval authority.

Construction Land Planning Permit

According to the Urban and Rural Planning Law of the PRC (《中華人民共和國城鄉規劃法》) promulgated by the Standing Committee of the National People's Congress on 28 October 2007 and implemented on 1 January 2008, a Construction Land Planning Permit is required for the use of both allocated land and granted land.

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

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Construction Work Planning Permit

According to the Urban and Rural Planning Law, where construction work is conducted in a city or town planning area, the relevant construction entity or individual shall apply for a Construction Work Planning Permit from a competent urban and rural planning administrative department of the People's Government at the municipal or county level or to the People's Government of town as recognised by the People's Government of a province, autonomous region or municipality.

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

Construction Work Commencement Permit

According to the Construction Law of the People's Republic of China (《中華人民共和國建築法》) promulgated on 1 November 1997 and implemented on 1 March 1998 and its amendment formally issued on 22 April 2011, a construction entity shall, prior to the commencement of a construction project, apply for a Construction Work Commencement Permit from a competent department of the construction administration of the People's Government at or above the county level of the place where the project is located pursuant to the relevant regulations of the State. However, small projects determined by the competent department of construction administration of the State Council, and construction projects which have already obtained approvals for their construction commencement report pursuant to the terms of reference and procedures prescribed by the State Council, are subject to exception.

According to the Rules on the Administration of Construction Quality (《建設工程質量管理條例》) promulgated and implemented by the State Council on 30 January 2000, a construction entity commencing the project without obtaining the construction work commencement permit or approvals for its construction commencement report, shall be ordered to stop the construction work, carry out remedial actions within a prescribed time limit and pay a fine of not less than 1% but not exceeding 2% of the construction price.

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Inspection and Acceptance on Completion of Construction Projects

According to the Rules on the Administration of Construction Quality (《建設工程質量管理條例》) promulgated and implemented on 30 January 2000 and 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 was promulgated and implemented on 19 October 2009 a construction project shall not be delivered for use unless it has passed the acceptance checks. The construction entity should file a record to a competent construction administrative department 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.

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 carry out remedial actions and also pay a fine of not less than 2% but not exceeding 4% of the contractual project price, and shall be obliged to pay compensation according to law if any losses have been caused. If the construction entity fails to file a record of passing the acceptance checking in respect of the project within 15 days from the day when the construction project passes such checks, it shall be ordered to carry out remedial actions within a prescribed time limit and shall be fined not less than RMB200,000 but not exceeding RMB500,000.

LABOUR PROTECTION

Pursuant to the PRC Labour Law (《中華人民共和國勞動法》) promulgated on 5 July 1994 and became effective on 1 January 1995 and amended on 27 August 2009 and the PRC Labour Contract Law (《中華人民共和國勞動合同法》) which was promulgated on 29 June 2007 and became effective on 1 January 2008 and which was further revised on 28 December 2012, if an employment relationship is established between an entity and its employees, written labour contracts shall be prepared and such contracts can only be terminated by payment or in accordance with relevant laws. The relevant laws also stipulate the maximum number of working hours per day and per week, respectively, and the requirements for entities to establish and develop systems for occupational safety and sanitation.

Pursuant to the Social Insurance Law of the PRC (《中華人民共和國社會保險法》), which was promulgated on 28 October 2010 and took effect from 1 July 2011, employees shall participate in basic pension insurance, basic medical insurance, unemployment insurance, work-related injury insurance and maternity insurance schemes. Basic pension, basic medical insurance and unemployment insurance contributions shall be paid by both employers and employees while work-related injury insurance and maternity insurance contributions shall be solely undertaken by employers.

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Pursuant to the Regulations on the Administration of Housing Fund (《住房公積金管理條例》) promulgated and became effective on 3 April 1999, as amended on 24 March 2002, PRC companies must register with the applicable housing fund management centre and establish a special housing fund account in an entrusted bank. Each of the PRC companies and their employees are required to contribute to the housing fund and their respective deposits shall not be less than 5% of an individual employee's monthly average wage of the preceding year.

TAXATION

Enterprise Income Tax

According to the EIT Law, which was promulgated on 16 March 2007 and with effect from 1 January 2008, and the Implementation Rules To the Enterprise Income Tax Law (中華人民共和國企業所得稅法實施條例) (the “**Implementation Rules**”), which was promulgated on 6 December 2007 and with effect from 1 January 2008, the income tax for both domestic and foreign-invested enterprises is at the same rate of 25%. Furthermore, resident enterprises, which refer to enterprises that are set up in accordance with the PRC law, or that are set up in accordance with the law of the foreign country (region) but with its actual administration institution in the PRC, shall pay enterprise income tax originating both within and outside the PRC. While non-resident enterprises that have set up institutions or premises in the PRC shall pay enterprise income tax, in relation to the income originating from the PRC and obtained by their institutions or establishments, and the income incurred outside the PRC but there is an actual relationship with the institutions or establishments set up by such enterprises. Where non-resident enterprises that have not set up institutions or establishments in the PRC, or where institutions or establishments are set up but there is no actual relationship with the income obtained by the institutions or establishments set up by such enterprises, they shall pay enterprise income tax in relation to the income originating from the PRC.

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

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 fee.

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Value Added Tax

According to the Notice on Value Added Tax Policy of Comprehensive Utilization 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 and implemented by the Ministry of Finance and the SAT on 9 December 2008 and amended on 29 December 2009, the state exempts the qualified wastewater treatment enterprises from value added tax with respect to service fee gained from wastewater treatment from 1 January 2009. The qualified wastewater treatment is a business that the water released after the wastewater treatment process satisfies the water quality standard set out in the Discharge Standard of Pollutants for Municipal Wastewater Treatment Plant (《城鎮污水處理廠污染物排放標準》) (GB18918-2002). Our subsidiaries are qualified for such exemption.

Urban Maintenance and Construction Tax as well as Education Surtax

Pursuant to Tentative Regulations of the PRC on Urban Maintenance and Construction Tax (《中華人民共和國城市維護建設稅暫行條例》), which was promulgated on 8 February 1985 and with effect from 1 January 1985, and Circular of the SAT on Issues Concerning the Collection of the Urban Maintenance and Construction Tax (《國家稅務總局關於城市維護建設稅徵收問題的通知》), which was promulgated and implemented on 12 March 1994, any unit or individual liable to consumption tax, value-added tax and business tax shall also be required to pay urban maintenance and construction tax. Payment of urban maintenance and construction tax shall be based on the consumption tax, value-added tax and business tax which a taxpayer actually pays and shall be made simultaneously when the latter are paid. Furthermore, the rates of urban maintenance and construction tax shall be 7%, 5% and 1% for a taxpayer in a city, in a county town or town and in a place other than a city, county town or town respectively.

In accordance with Tentative Provisions on the Collection of Educational Surtax (《徵收教育費附加的暫行規定》), which was promulgated on 28 April 1986 and implemented on 1 July 1986 and last revised on 8 January 2011, all units and individuals who pay consumption tax, value-added tax and business tax shall also be required to pay educational surtax in accordance with these Provisions. The educational surtax rate is 3% of the amount of value-added tax, business tax and consumption tax actually paid by each unit or individual, and the educational surtax shall be paid simultaneously with value-added tax, business tax and consumption tax.

Fiscal Subsidy

According to the Circular of the State Council on the Publication of the Comprehensive Scheme on Energy Saving and Emission Reduction (國務院關於印發節能減排綜合性工作方案的《通知》) issued by the State Council and implemented on 23 May 2007, the People's Government of all levels should arrange for the allocation of certain funds in the fiscal budget to support key projects of energy saving and emission reduction, highly efficient energy saving products,

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promotions for new mechanisms of energy saving, building energy saving management capabilities, as well as pollution and emission reduction supervision systems by way of grants and incentives, in order to further increase the orientation of fiscal infrastructural investments towards energy saving and environmental protection projects.

Pursuant to the Regulations on Urban Drainage and Sewage Treatment (城鎮排水與污水處理條例) promulgated by the State Council on 2 October 2013 and implemented on 1 January 2014, sewage treatment fees shall be included in the local fiscal budget for the purpose of administration, and shall be exclusively used for the construction and operation of urban sewage treatment facilities and the treatment and disposal of sludge, but not for any other purpose. The standard rate of sewage treatment fees shall not be lower than the normal operating cost of urban sewage treatment facilities. If due to special reasons, the sewage treatment fees collected were insufficient to pay for the normal operating cost of urban sewage treatment facilities, subsidy would be granted by the local people's government.

Pursuant to the Administrative Measures of Funds for auxiliary pipeline and network construction projects of urban sewage treatment facilities during the Twelfth Five-year Plan period (「十二五」期間城鎮污水處理設施配套管網建設項目資金管理辦法) promulgated and implemented by the Ministry of Finance and the Ministry of Housing and Urban-Rural Development (MOHURD) on 23 May 2011, special funds shall be used for specific purposes. Under which, special funds from the centralised pool must be allocated for use in the sewage pipeline and network construction projects within the local Twelfth Five-year Plan construction tasks supported by centralised means. To encourage early construction and early completion of local tasks, if sewage pipeline and network projects within the local Twelfth Five-year Plan construction tasks supported by centralised means were completed by using locally financed funds, the special funds upon receipt by the local government may be used to reimburse the funds advanced for such projects. After completion of the local sewage pipeline and network construction tasks supported by centralised means, any positive balance remaining in the special fund will be grouped together by the provincial coordinator for inclusion in the General Progress Fund for administration. Special funds in the General Progress Fund may be used to facilitate the general progress of local sewage pipeline and network construction, and may also be deployed for use in local sewage pipeline and network construction supported by centralised means. For specific projects, the funds may be allocated for use in the construction of new sewage pipeline and network projects or such projects under development, and may be used to reimburse the funds advanced for sewage pipeline and network projects completed since 2010. After completion of the sewage pipeline and network construction projects, any positive balance remaining in the special fund may be used for care and maintenance of sewage pipelines and networks and the operation of the sewage treatment facilities.

According to the Opinions of the People's Government of Yunnan Province on Accelerating the Construction of Urban Sewage and Municipal Solid Waste Treatment Facilities and Enhancing Operational Management Work (雲南省人民政府關於加快城鎮污水生活垃圾處理設施建設和加強運營管理工作的意見) issued and implemented on 19 September 2008, while striving to obtain the support of national funds, supportive efforts from local fiscal funds would be further increased. The provincial financial authority allocated RMB 500 million

REGULATORY ENVIRONMENT

each year for construction projects of sewage and solid waste treatment facilities from 2008 to 2012 by way of incentives instead of subsidies and by way of capital investments for exclusive use in the preliminary work and construction of projects for urban sewage and solid waste treatment facilities.

According to the Guidance Opinions of the General Office of the People's Government of Yunnan Province on Enhancing the Construction and Operational Management of Auxiliary Pipeline and Network for Urban Sewage Treatment Plants (雲南省人民政府辦公廳關於加強城鎮污水處理廠配套管網建設和運營管理的指導意見) issued on 1 April 2014, the people's governments of all counties, cities and districts were required to include the collection of sewage treatment fees in the local fiscal budget for the purpose of administration. The full amounts of sewage treatment fees collected shall be used for the construction and operation of the sewage treatment facilities, and fiscal subsidies shall be provided if such collected fees were insufficient to pay for the normal operation of the facilities. Special accounts shall be opened to deposit the construction funds for urban sewage treatment facilities, and special audits will be conducted, in order to achieve complete procedures, special account management, special fund for special purpose, special account for deposits, clear accounting entries. Withholding, unauthorised diversion or possession and misappropriation of project construction funds are strictly prohibited.

Distribution of Profits

According to the Company Law (《中華人民共和國公司法》) amended on 28 December 2013 and implemented on 1 March 2014, a company's profit distribution plans and loss recovery plans shall be examined and approved by the shareholders' general meeting of the company. A company is restricted from distributing profits before the losses of the company of the previous years have been made up and statutory common reserve has been drawn. According to Special Regulations promulgated on 4 August 1994, the dividends and other distributions to be paid to holders of overseas listed foreign invested shares shall be declared and calculated in Renminbi and paid in foreign currency. According to the Mandatory Provisions, the Company shall appoint recipient agents for holders of foreign investment shares listed outside the PRC to collect on behalf of the relevant shareholders the dividends distributed and other funds payable in respect of foreign investment shares listed outside the PRC.

Regulating Preferential Policies on Tax and Other Aspects

According to the Notice of the State Council on Regulating Preferential Policies on Tax and Other Aspects (《國務院關於清理規範稅收等優惠政策的通知》) (the "Notice") promulgated by the State Council on 27 November 2014, all preferential policies on tax and other aspects which violate PRC laws and regulations or affecting fair competition are required to be included in the scope of the Notice, which means the regulating scope of the Notice shall cover not only the preferential policies on tax and non-tax income, but also the preferential policies on fiscal expenditures linked with enterprise payment of tax or non-tax income.

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The Notice requires to effectively regulate all kinds of preferential policies on tax and other aspects in the ways of (i) unifying the authorities that formulate tax policies; (ii) regulating the administration over non-tax and other income; and (iii) strengthening the administration over fiscal expenditures. No local governments or their designees are permitted to formulate any tax preferential policies unless they have the tax administration power under specific tax laws and regulations and provisions of the Law of the People's Republic of China on Regional National Autonomy (《中華人民共和國民族區域自治法》); and without approval of the State Council, no departments of the State Council are permitted to provide for any specific tax preferential policies in other laws, regulations, rules, development plans and regional policies.

It is required to strictly implement the existing administrative fee, government fund and social insurance administration systems. It is forbidden to relieve or exempt or delay the collection of administrative fees and government funds from enterprises in violation of the relevant provisions and to sell the land at a preferential or nil price; it is forbidden to transfer state-owned assets, state-owned enterprise equities and mineral products as well as other state-owned resources at a low price; and it is forbidden to relieve or exempt or delay the collection of social insurance premiums payable by enterprises in violation of laws and regulations and provisions of the State Council, and enterprises are not allowed to pay premiums at a rate lower than unified rate without approval of the State Council.

Without approval of the State Council, no local government and authority may provide fiscal preferential policies for enterprises. Resolute cancellation measures apply to the preferential policies formulated in violation of laws and regulations for fiscal expenditures linked with tax or non-tax income to be paid by enterprises and their investors (or managers), including refund after collection, false income or expense items, financial incentives or subsidies, and reduction or exemption of land transfer income through payment on behalf or subsidy. It is also required to regulate other preferential policies, such as bearing social insurance premiums and other operating costs for enterprises, offering preferential power or water tariff, attracting external enterprises to establish business operations or to pay taxes and surcharges in the relevant regions through forms of financial incentives, subsidies or otherwise, and retaining all local finance income or increasing the refund of such income in respect of some regions. The Notice does not require an entity which has been granted any subsidies for attracting local investment to return such subsidies.

HISTORY, REORGANISATION AND CORPORATE STRUCTURE

OUR HISTORY, DEVELOPMENT AND REORGANISATION

Background

We commenced our business in water supply and wastewater treatment in Yunnan in 2009 through the various subsidiaries and joint venture companies held by Yunnan Province Water, our largest Controlling Shareholder. Yunnan Province Water is a state-owned enterprise established by YMCI on 22 April 2009, YMCI was in turn owned as to 96.21% by Yunnan SASAC. Our Company's predecessor, Yunnan Water Co., was established by Yunnan Province Water by way of asset contribution and Beijing OriginWater by way of cash contribution on 21 June 2011. Our Company was converted from Yunnan Water Co., a limited liability company, into a joint stock limited liability company and renamed as Yunnan Water Investment Co., Limited (雲南水務投資股份有限公司) on 22 July 2014.

Upon our establishment in June 2011, Yunnan Province Water contributed its 29 subsidiaries and joint venture companies holding various water supply plants and wastewater treatment plants, and nine investment projects, all of which were located in Yunnan into Yunnan Water Co. with a valuation amount of approximately RMB663.5 million based on the audit report (驗資報告) prepared by Daxin Certified Public Accountants Co. Ltd. (Yunnan branch) (大信會計師事務所有限公司雲南分行), an Independent Third Party, as at 21 September 2011. Such subsidiaries and joint venture companies contributed by Yunnan Province Water include Dali Water, Jinghong Water and OriginWater Technology, our principal operating subsidiaries. Our PRC legal adviser, Jia Yuan Law Offices, confirms that (a) the necessary approvals from the relevant authorities for the asset contribution by Yunnan Province Water had been obtained, (b) the changes in the industrial and commercial registration in respect of such asset contribution had been properly and legally completed, and (c) all the assets contributed by Yunnan Province Water were legally owned by Yunnan Province Water.

Since our establishment, we have established, developed and acquired new businesses in Yunnan and other areas in the PRC, including Xinjiang, Shandong, Jiangsu and Guizhou. Our business comprises four main segments, namely wastewater treatment, water supply, construction and equipment sales and others, which include O&M wastewater treatment, water supply and municipal waste disposal projects. These four segments cover the full spectrum of the water industry, ranging from raw water supply, tap water supply and wastewater treatment to engineering services, equipment sales and system integration.

HISTORY, REORGANISATION AND CORPORATE STRUCTURE

Our milestones

The following illustrates our major business development milestones and achievements:

Month/Year	Event
July 2011	Yunnan Province Water transferred its 51% interest in Jinghong Water to us. Jinghong Water is one of the largest water supply enterprises in Xishuangbanna holding various wastewater treatment plants and water supply plants in Jinghong and Mengpeng counties. This transfer expanded our business scale and further increased our influence in Yunnan.
March 2012	Honghe Autonomous Prefecture government agreed to transfer to us or entrust to us for our operation of 10 wastewater plants in 10 cities (counties) with a total wastewater treatment capacity of 214,000 tons/day.
June 2012	We signed the “Mengla and Menghai Comprehensive Projects Cooperative Agreement” with Jinghong Urban Investment to increase our water treatment capacity.
October 2012	Beijing OriginWater transferred its 50% interest in OriginWater Technology to us. OriginWater Technology became our wholly-owned subsidiary through which we conduct our EPC projects and equipment sales businesses.
January 2013	We were awarded the Yunnan Advanced Collective in Urban Wastewater Treatment and Domestic Waste Disposal for the period from 2008 to 2012.
April 2013	We established Emin Water for our first water supply project in Xinjiang. This is our first project outside Yunnan.
September 2013	We acquired 60% interest in Guoqing Environmental in order to supplement our business on O&M projects.
January 2014	We acquired 52.38% interest in Beijing Clean in order to supplement our business on solid waste disposal. We established Shandong Environmental with an Independent Third Party to conduct our water treatment business in Shandong. This marked our first expansion into Shandong.
May 2014	We acquired 75% interest in Wuxi Zhongfa Water, which held several wastewater treatment projects in Jiangsu. This acquisition enabled us to establish our foothold in Jiangsu for the first time.
July 2014	We were converted from our predecessor Yunnan Water Co., a limited liability company, into a joint stock limited liability company.
September 2014	We established Dianzhong Water with three other Independent Third Parties. Dianzhong Water will serve as our investment and financing platform to undertake the construction and operation of water projects in the Dianzhong New Industrial Zone in Yunnan in the future.

HISTORY, REORGANISATION AND CORPORATE STRUCTURE

Month/Year	Event
November 2014	The Membrane Production Plant started trial operation. With the Membrane Production Plant, we will be able to manufacture high quality and low cost membranes products for use in our wastewater treatment and water supply facilities and also for external sale. Our Company will no longer solely rely on third party suppliers for our business and it is also expected to be a new source of revenue for our Group.

Information about our Controlling Shareholders

Yunnan Province Water

Yunnan Province Water is a state-owned enterprise established on 22 April 2009 with a registered capital of RMB600 million. As at the Latest Practicable Date, Yunnan Province Water was wholly owned by YMCI which in turn was owned as to 96.21% by Yunnan SASAC. Yunnan Province Water owned 45.43% of our issued share capital. Immediately following the completion of the Global Offering, assuming the Over-allotment Option is not exercised, Yunnan Province Water will hold approximately 31.57% of our issued share capital. Yunnan Province Water is principally engaged in asset investment and management.

Acting in Concert Parties

On 24 July 2014, Yunnan Province Water and the Acting in Concert Parties, namely Liu Xujun, Huang Yunjian, both our executive Directors and Wang Yong, our senior management, entered into the Acting in Concert Agreement, pursuant to which the Acting in Concert Parties agree to act in concert with Yunnan Province Water in exercising their voting rights in the Shareholders' meeting of our Company until such agreement is terminated by the parties. Prior to entering into the Acting in Concert Agreement, the Acting in Concert Parties had not been acting in concert with Yunnan Province Water. The Acting in Concert Parties had acted in concert with Beijing OriginWater before they entered into the Acting in Concert Agreement with Yunnan Province Water in July 2014. In May 2013, Beijing OriginWater transferred 0.42% Shares in our Company to the Acting in Concert Parties. As stipulated in the relevant share transfer agreement (the "**Previous Agreement**"), the Acting in Concert Parties agreed to act in concert with Beijing OriginWater for a term of five years. In July 2014, the Previous Agreement was terminated and such Acting in Concert Parties entered into the Acting in Concert Agreement with Yunnan Province Water. We are able to fulfil the ownership continuity requirements under Rule 8.05(1)(c) of the Listing Rules because the Acting in Concert Parties owns less than 0.5% Shares in our Company, and the shareholdings of the Acting in Concert Parties does not materially affect the shareholdings of Yunnan Province Water and Beijing OriginWater, our largest and second largest Controlling Shareholders, respectively.

HISTORY, REORGANISATION AND CORPORATE STRUCTURE

Pursuant to the Acting in Concert Agreement, Yunnan Province Water and the Acting in Concert Parties together were entitled to control approximately 45.74% of our issued share capital as at the Latest Practicable Date and will be entitled to control approximately 31.81% of our issued share capital immediately following the completion of the Global Offering, assuming the Over-allotment Option is not exercised. As such, our Controlling Shareholders will also include the Acting in Concert Parties.

YMCI

YMCI is a state-owned enterprise established on 28 April 2005 and is the sole shareholder of Yunnan Province Water. As at the Latest Practicable Date, it had a registered capital of RMB4,142,214,400. YMCI is principally engaged in asset investment and management.

Beijing OriginWater

Beijing OriginWater, listed on the Shenzhen Stock Exchange (stock code: 300070), is a joint stock company established under the PRC law, the shares of which are listed on the Shenzhen Stock Exchange with a registered capital of approximately RMB1,076.9 million. As at the Latest Practicable Date, Beijing OriginWater owned 33.23% of our issued share capital. As at 31 March 2015, Beijing OriginWater was owned as to 24.83% and 5.05% by Mr. Wen Jianping and Mr. He Yuanping, respectively, both being our non-executive Directors. Immediately following the completion of the Global Offering, assuming the Over-allotment Option is not exercised, Beijing OriginWater will hold approximately 24.92% of our issued share capital. Beijing OriginWater is also regarded as a Controlling Shareholder because it held 33.23% of our issued share capital as at the Latest Practical Date, even though immediately following the completion of the Global Offering, it will only hold 24.92% interest in our Company.

Beijing OriginWater is principally engaged in (i) design, sale, manufacturing and provision of system integration services of the equipment, particularly membrane, used in municipal wastewater treatment facilities that are under EPC and equipment sales; (ii) development, design, construction, operation and maintenance of wastewater treatment facilities; and (iii) sale and manufacturing of water purifying machines for residential and office uses.

Each of YMCI, Yunnan Province Water and Beijing OriginWater has retained certain business which may potentially compete with our business. See “Relationship with our Controlling Shareholders — Delineation of Business” for details of the excluded business.

HISTORY, REORGANISATION AND CORPORATE STRUCTURE

Reorganisation and increase in registered capital

In June 2011, we underwent the reorganisation below (the “**Reorganisation**”):

1. *Establishment of Yunnan Water Co.*

On 21 June 2011, Yunnan Water Co. was established as a limited liability company in the PRC and commenced its operation with an initial registered capital of RMB600 million. Yunnan Province Water contributed RMB306 million, representing 51% of the registered capital by contributing its 29 subsidiaries and joint venture companies and nine investments projects in Yunnan Province into Yunnan Water Co., Beijing OriginWater contributed RMB294 million in the form of cash, representing 49% of the registered capital.

2. *Increase of registered capital and changes in the shareholding structure of Yunnan Water Co.*

- In October 2012, the registered capital of Yunnan Water Co. was increased from RMB600 million to RMB650 million by Yunnan Province Water and Beijing OriginWater in proportion to their respective interest in Yunnan Water Co. Yunnan Province Water contributed RMB25.5 million in the form of cash and Beijing OriginWater contributed RMB24.5 million by contributing its 50% interest in OriginWater Technology into Yunnan Water Co.
- In May 2013, as an incentive to employees, Beijing OriginWater signed the share transfer agreements with each of the 29 Management Shareholders (including management and key employees) in respect of the transfer of its aggregate 4.9% interest in Yunnan Water Co. to the 29 Management Shareholders at an aggregate consideration of approximately RMB72 million based on the net asset value of Yunnan Water Co. as at 31 December 2012.
- In July 2013, the registered capital of Yunnan Water Co. was increased from RMB650 million to RMB787.88 million as contributed by Finergy Development, an Independent Third Party, by cash contribution. See “History, Reorganisation and Corporate Structure — Pre-IPO Investments” for details of the contribution by Finergy Development.
- In June 2014, as an incentive to employee, Yu Long, an executive Director, signed a share transfer agreement with a management member of our Company (together with the 29 Management Shareholders, collectively referred to as the “**30 Management Shareholders**”) in respect of the transfer of his 0.13% interest in Yunnan Water Co. at a consideration of RMB2.3 million.

HISTORY, REORGANISATION AND CORPORATE STRUCTURE

Immediately before the conversion of Yunnan Water Co. into a joint stock limited liability company, the shareholding structure of Yunnan Water Co. was as follows:

No.	Shareholder ⁽⁹⁾	Contribution	Percentage of shareholding
		(RMB'000)	(%)
1	Yunnan Province Water ⁽¹⁾	331,500	42.07
2	Beijing OriginWater	286,650	36.38
3	Finergy Development	137,880	17.50
4	Yu Long ⁽²⁾	10,690	1.36
5	Hu Shake ⁽³⁾	2,535	0.32
6	Huang Yunjian ^(1, 4)	1,950	0.25
7	Yang Fang ⁽⁵⁾	1,755	0.22
8	Hong Fang	1,690	0.21
9	Huang Yi	1,560	0.20
10	Luo Yuxuan	1,495	0.19
11	Zhang Ruliang	1,170	0.15
12	Li Bo ⁽⁶⁾	1,010	0.13
13	Zhao Peng	910	0.12
14	Ma Dongjun	845	0.11
15	Song Chunxia	715	0.09
16	Li Junfeng	585	0.07
17	Wang Yong ^(1, 7)	585	0.07
18	Yang Chuanyun	520	0.07
19	Li Guoqiang	455	0.06
20	Mo Cunyan	390	0.05
21	Mi Shiyun	325	0.04
22	Luo Hongyan	325	0.04
23	Zhou Zhimi	325	0.04
24	Liu Nanjiao	325	0.04
25	Que Yunlei	325	0.04
26	Chen Nianjuan	260	0.03
27	Liu Xujun ^(1, 8)	195	0.02
28	Chen Xiangwen	195	0.02
29	Xu Qiang	195	0.02
30	Dai Shaobo	195	0.02
31	Gui Hao	130	0.02
32	Zhang Ruzhi	130	0.02
33	Shi Jiayong	65	0.01
Total	—	787,880	100

Notes:

⁽¹⁾ By virtue of the Acting in Concert Agreement, Yunnan Province Water and the Acting in Concert Parties together were entitled to control 45.74% of our issued share capital as at the Latest Practicable Date.

HISTORY, REORGANISATION AND CORPORATE STRUCTURE

- (2) Yu Long is our executive Director.
- (3) Hu Shake is a deputy general manager of our Company.
- (4) Huang Yunjian is our executive Director.
- (5) Yang Fang is a deputy general manager of our Company.
- (6) Li Bo is the company secretary of our Company.
- (7) Wang Yong is the chief financial officer of our Company.
- (8) Liu Xujun is our executive Director.
- (9) Save for the Acting in Concert Agreement referred to in note 1 above, none of the Shareholders are family members, relatives or parties acting in concert.

3. *Promotion agreement and establishment of joint-stock limited liability company in 2014*

In preparation for the Listing and according to a promotion agreement dated 15 July 2014 entered into by the 33 then existing Shareholders, our Company was converted from a limited liability company into a joint stock limited liability company with a registered capital of RMB787.88 million on 22 July 2014.

4. *Increase in the registered capital of our Company after the conversion*

On 16 September 2014, the registered capital of our Company was increased from RMB787,880,000 to RMB862,564,457. The increased capital was contributed by cash by Yunnan Province Water, Hangzhou Qingyu and Sichuan Rongchen, among which Yunnan Province Water contributed RMB210,000,000 for the increased registered capital of RMB60,322,062, Hangzhou Qingyu contributed RMB20,000,000 for the increased registered capital of RMB5,744,958 and Sichuan Rongchen contributed RMB30,000,000 for the increased registered capital of RMB8,617,437. Both Hangzhou Qingyu and Sichuan Rongchen are Independent Third Parties. See “History, Reorganisation and Corporate Structure — Pre-IPO Investments” for details of the contribution by Hangzhou Qingyu and Sichuan Rongchen.

After this capital increase, the shareholding structure of our Company was as follows:

No.	Shareholder ⁽⁹⁾	No. of Domestic Shares	Percentage of shareholding
			(%)
1	Yunnan Province Water ⁽¹⁾	391,822,062	45.43
2	Beijing OriginWater	286,650,000	33.23
3	Finergy Development	137,880,000	15.98
4	Hangzhou Qingyu	5,744,958	0.67
5	Sichuan Rongchen	8,617,437	1.00
6	Yu Long ⁽²⁾	10,690,000	1.24
7	Hu Shake ⁽³⁾	2,535,000	0.29
8	Huang Yunjian ^(1, 4)	1,950,000	0.23
9	Yang Fang ⁽⁵⁾	1,755,000	0.20

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No.	Shareholder ⁽⁹⁾	No. of Domestic Shares	Percentage of shareholding (%)
10	Hong Fang	1,690,000	0.20
11	Huang Yi	1,560,000	0.18
12	Luo Yuxuan	1,495,000	0.17
13	Zhang Ruliang	1,170,000	0.14
14	Li Bo ⁽⁶⁾	1,010,000	0.12
15	Zhao Peng	910,000	0.11
16	Ma Dongjun	845,000	0.10
17	Song Chunxia	715,000	0.08
18	Li Junfeng	585,000	0.07
19	Wang Yong ^(1, 7)	585,000	0.07
20	Yang Chuanyun	520,000	0.06
21	Li Guoqiang	455,000	0.05
22	Mo Cunyan	390,000	0.05
23	Mi Shiyun	325,000	0.04
24	Luo Hongyan	325,000	0.04
25	Zhou Zhimi	325,000	0.04
26	Liu Nanjiao	325,000	0.04
27	Que Yunlei	325,000	0.04
28	Chen Nianjuan	260,000	0.03
29	Liu Xujun ^(1, 8)	195,000	0.02
30	Chen Xiangwen	195,000	0.02
31	Xu Qiang	195,000	0.02
32	Dai Shaobo	195,000	0.02
33	Gui Hao	130,000	0.02
34	Zhang Ruzhi	130,000	0.02
35	Shi Jiayong	65,000	0.01
Total	—	862,564,457	100

Notes:

- (1) By virtue of the Acting in Concert Agreement, Yunnan Province Water and the Acting in Concert Parties together were entitled to control 45.74% of our issued share capital as at the Latest Practicable Date.
- (2) Yu Long is our executive Director.
- (3) Hu Shake is a deputy general manager of our Company.
- (4) Huang Yunjian is our executive Director.
- (5) Yang Fang is deputy general manager of our Company.
- (6) Li Bo is the company secretary of our Company.
- (7) Wang Yong is the chief financial officer of our Company.
- (8) Liu Xujun is our executive Director.
- (9) Save for the Acting in Concert Agreement referred to in note 1 above, none of the Shareholders are family members, relatives or parties acting in concert.

HISTORY, REORGANISATION AND CORPORATE STRUCTURE

Our PRC legal adviser, Jia Yuan Law Offices, confirms that we have obtained all relevant approvals from, and have duly filed with, the relevant PRC government authorities with respect to the above Reorganisation. The Reorganisation complies with all relevant applicable laws, rules and regulations.

Major acquisitions, disposals, mergers and joint ventures during the Track Record Period up to the Latest Practicable Date

Set out below is a table summarising the major acquisitions and disposals undertaken by our Company during the Track Record Period and up to the Latest Practicable Date:

Date of the agreement and description of transaction	Parties	Amount and basis of consideration	How and when consideration was settled	Reason for the transaction
<i>Acquisitions</i>				
12 October 2012, contribution of RMB24.5 million of the registered capital to our Company by Beijing OriginWater Technology as asset contribution	Transferor: Beijing OriginWater, our Controlling Shareholder Transferee: our Company	Increase of the registered capital of our Company by RMB24.5 million The contribution was determined on the basis of the asset valuation by an Independent Third Party.	The change in the industrial and commercial registration in respect of OriginWater Technology was completed on 15 October 2012.	To enable our Group to conduct our business in EPC projects and equipment sales.
30 March 2012, acquisition of the entire interest in Liuku Water	Vendor: Lushui Finance Bureau (瀘水縣財政局), an Independent Third Party Purchaser: Our Company	RMB53.5 million The consideration was determined on the basis of the asset valuation by an Independent Third Party.	RMB25.0 million was settled in cash in December 2012 and RMB20 million was settled in December 2013. The balance of RMB8.5 million will be settled by June 2015 according to the relevant share transfer agreement.	Liuku Water held a tap water supply plant with daily capacity of 20,000 tonnes/day, and undertook to construct Tap Water Supply Plant No. 2. It strengthened our strategic development in west Yunnan.
28 August 2012, acquisition of the Gejiu Wastewater Treatment Plant	Vendor: Gejiu City People's Government (個舊市人民政府), an Independent Third Party Purchaser: Our Company	Approximately RMB75.5 million The consideration was determined on the basis of the asset valuation by an Independent Third Party.	RMB8.5 million was settled in August 2014 and the balance of RMB67.0 million will be settled by 31 May 2016 according to the relevant share transfer agreement.	To enhance our wastewater treatment plant capacity.

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Date of the agreement and description of transaction	Parties	Amount and basis of consideration	How and when consideration was settled	Reason for the transaction
28 August 2012, acquisition of the Mengzi Wastewater Treatment Plant	Vendor: Mengzi People's Government (蒙自市人民政府), an Independent Third Party Purchaser: Our Company	Approximately RMB61.2 million The consideration was determined on the basis of the asset valuation by an Independent Third Party.	RMB9 million was settled in October 2014 and the balance of RMB52.2 million will be settled by 31 May 2016 according to the relevant share transfer agreement.	To enhance our wastewater treatment plant capacity.
26 April 2013, acquisition of 100% interest in Mengla Quanyuan Water Distribution Co., Ltd (勐臘縣泉源自來水有限公司)	Vendor: 30 natural persons, all being Independent Third Parties Purchaser: Mengla Water	Approximately RMB14.4 million in aggregate The consideration was determined on the basis of the asset valuation by an Independent Third Party.	Settled in full in cash in August 2013	To supplement our water supply business.
23 September 2013, acquisition of 60% interest in Guoqing Environmental	Vendor: Ma Xiaojun, an Independent Third Party Purchaser: Our Company	RMB13.0 million The consideration was determined on the basis of the asset valuation by an Independent Third Party.	Settled in full in cash in May 2014	To supplement our O&M business.
27 December 2013, acquisition of 52.38% interest in Beijing Clean through increase of registered capital	Issuer: Beijing Clean, an Independent Third Party Purchaser: Our Company	RMB11.7 million The consideration was determined on the basis of the asset valuation by an Independent Third Party.	Settled in full in cash in March 2014	To supplement our solid waste disposal business.
26 May 2014, acquisition of 75% interest in Wuxi Zhongfa Water	Vendor: Chen Zirong (陳子榮) as to 36.2%, Zheng Kewei (鄭可微) as to 30%, Shanghai Qingke Environmental Engineering Co. Ltd. (上海清科環境工程有限公司) as to 8.8%, all being Independent Third Parties. Purchaser: Our Company	RMB44.4 million The consideration was determined on the basis of the asset valuation by an Independent Third Party.	Settled in full in cash in May 2014	To increase our wastewater treatment capacity and establish our foothold in Jiangsu Province for the first time.
<i>Disposals</i>				
27 December 2012, disposal of 20% interest in Jinghong Haotai	Purchaser: Shenzhen Changfa Investment Co. Ltd. (深圳長發投資有限公司) ("Shenzhen Changfa") Vendor: our Company	Approximately RMB93.1 million The consideration was determined on the basis of the asset valuation by an Independent Third Party.	Settled in cash in December 2012	As the principal business of Jinghong Haotai is real estate, the disposal can streamline our corporate structure.

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Date of the agreement and description of transaction	Parties	Amount and basis of consideration	How and when consideration was settled	Reason for the transaction
In December 2013, disposal of 50% interest in Kunming Ruiyuan	Purchaser: Kunming Qingyuan Tap Water Co. Ltd. (昆明清源自來水有限公司), an Independent Third Party Vendor: Our Company	Approximately RMB59.2 million The consideration was determined on the basis of the asset valuation by an Independent Third Party.	Settled in cash in December 2013	As our Company has no control over Kunming Ruiyuan and the financial results of Kunming Ruiyuan were not satisfactory, the disposal is beneficial to our Group.
15 December 2014, disposal of the Mengzi Wastewater Treatment Plant	Purchaser: Circular Economy Vendor: Honghe Water	The consideration will be determined by the parties on the basis of the valuation of the asset as at 30 November 2014 to be prepared by an Independent Third Party.	To be settled in cash within seven days after the transfer of the asset	As the process of bidding, auction and listing in respect of the land underlying the Mengzi Wastewater Treatment Plant was not completed, our Directors considered that it was in the best interest of our Group to transfer the Mengzi Wastewater Treatment Plant to Circular Economy.
18 March 2015, termination of the disposal of the Mengzi Wastewater Treatment Plant	Honghe Water Circular Economy	N/A	N/A	As Honghe Water obtained the relevant land use right certificate for the parcel of land underlying the Mengzi Wastewater Treatment Plant on 13 March 2015, Honghe Water entered into an agreement with Circular Economy on 18 March 2015 to terminate the proposed disposal of the Mengzi Wastewater Treatment Plant.
15 December 2014, disposal of the Gantong Water Supply Plant	Purchaser: Circular Economy Vendor: Dali Water	RMB3.0 million The consideration was determined by the parties on the basis of the asset valuation by an Independent Third Party.	Settled in cash on 19 March 2015	As the land underlying the Gantong Water Supply Plant was in the process of being converted from collectively-owned land to granted land and the result of such process was uncertain, our Directors considered that it was in the best interest of our Group to transfer the Gantong Water Supply Plant to Circular Economy.

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Date of the agreement and description of transaction	Parties	Amount and basis of consideration	How and when consideration was settled	Reason for the transaction
<i>Deemed disposal</i>				
In December 2011, Shenzhen Changfa injected additional capital of RMB40 million into Jinghong Haotai, which accounted for 80% of its interest, at the consideration of RMB46.7 million. Our Company's interest in Jinghong Haotai was diluted from 100% to 20%	New shareholder: Shenzhen Changfa (80%), an Independent Third Party	The amount of increased capital is RMB40 million at the consideration of RMB46.7 million The consideration was determined on the basis of the asset valuation by an Independent Third Party.	Settled in cash in December 2011	As the principal business of Jinghong Haotai is real estate, the deemed disposal can streamline our corporate structure.
<i>Joint venture</i>				
3 January 2014, establishment of Shandong Environmental	Our Company: 60% equity interests Shandong Environment Industry Holdings Co., Ltd.: 40% equity interests	Our Company: RMB36 million Shandong Environment Industry Holdings Co., Ltd.: RMB1 million and 100% equity interests of Shandong Lingang Water Treatment Co., Ltd.	Settled in full in cash in February 2014	To supplement our water supply and wastewater treatment business.

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Date of the agreement and description of transaction	Parties	Amount and basis of consideration	How and when consideration was settled	Reason for the transaction
9 April 2014, the registered capital of Dali Water was increased from RMB90 million to RMB200 million, of which the increased capital of RMB50 million was contributed by Dali Asset Company at the consideration of approximately RMB243 million, the increased capital of RMB30 million was contributed by Dali Travel Resort State-owned Asset Operation Co., Ltd. (大理省級旅遊度假區國有資產經營有限責任公司) (“Dali Travel Co.”) at the consideration of approximately RMB146 million, and the increased capital of RMB30 million was contributed by Dali Dongcheng Urban Engineering Co., Ltd. (大理市東城區市政工程有限責任公司) (“Dali Urban Co.”) at the consideration of approximately RMB146 million. Our Company’s interest in Dali Water was diluted from 100% to 45%.	New shareholders: • Dali Asset Company, an Independent Third Party (25%) • Dali Travel Co., an Independent Third Party (15%) • Dali Urban Co., an Independent Third Party (15%)	The amount of increased capital is RMB110 million at the total consideration of approximately RMB534 million The consideration was determined on the basis of the asset valuation by an Independent Third Party.	As at the Latest Practicable Date, the increased registered capital has not been paid. The increased registered capital shall be settled within two years after the date of the capital increase agreement (i.e. by April 2016).	With the consolidated resources from the new shareholders, we can realise centralised construction, operation and management of water supply and wastewater treatment facilities with a view to improving the operation and business scale of Dali Water.

Our PRC legal adviser, Jia Yuan Law Offices, confirms that (i) the necessary approvals from the relevant authorities for all of our major acquisitions and disposals during the Track Record Period had been obtained as at the Latest Practicable Date, (ii) the change in the industrial and commercial registration in respect of all of our major acquisitions and disposals during the Track Record Period had been properly and legally completed, and (iii) all the companies acquired by our Company as set out above are legally owned by our Company notwithstanding the consideration have not been fully settled as the relevant change in the industrial and commercial registration had been properly and legal completed.

During the Track Record Period and up to the Latest Practicable Date, save as disclosed above, our Company did not have any major acquisition, disposal or merger.

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Pre-IPO Investments

In May 2013, our Company entered into the Subscription Agreement I and Shareholders Agreement I with Finergy Development pursuant to which Finergy Development agreed to subscribe for our increased registered capital of RMB137.88 million at an aggregated consideration of RMB400 million. The consideration was determined based on our net asset value as at 30 September 2012 according to the valuation report issued by Zhong Wei Zheng Xin (Beijing) Asset Appraisal Co., Ltd., an independent valuer. Following completion of this subscription, our registered capital increased from RMB650 million to RMB787.88 million, and Finergy Development held 17.5% of our equity interest at the completion of the subscription. The proceeds received from Finergy Development were mainly used for development of our business and as capital expenditure and working capital for our daily operations. As at the Latest Practicable Date, the proceeds had been fully utilised. Finergy Development is an Independent Third Party.

In July 2014, our Company entered into the Subscription Agreement II and Shareholders Agreement II with, among others, Hangzhou Qingyu, Sichuan Rongchen and Yunnan Province Water pursuant to which (i) Hangzhou Qingyu agreed to subscribe for our increased registered capital of RMB5,744,958 at an aggregated consideration of RMB20,000,000, (ii) Sichuan Rongchen agreed to subscribe for our increased registered capital of RMB8,617,437 at an aggregated consideration of RMB30,000,000, and (iii) Yunnan Province Water agreed to subscribe for our increased registered capital of RMB60,322,062 at an aggregated consideration of RMB210,000,000. The consideration was determined based on our net asset value as at 31 July 2013 according to the valuation report issued by Zhongwei Zhengxin (Beijing) Asset Appraisal Co. Ltd., an independent valuer. Following completion of this subscription, our registered capital increased from RMB787,880,000 to RMB862,564,457, and upon the completion of the subscription, each of Hangzhou Qingyu and Sichuan Rongchen held 0.666% and 0.999% of our equity interest, respectively, and the equity interest of Yunnan Province Water increased from 42.07% to 45.43%. The proceeds received from Hangzhou Qingyu, Sichuan Rongchen and Yunnan Province Water were mainly used for development of our business and as capital expenditure and working capital for our daily operations. As at the Latest Practicable Date, the proceeds had been fully utilised. Each of Hangzhou Qingyu and Sichuan Rongchen is an Independent Third Party and Yunnan Province Water is our largest Controlling Shareholder.

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Date of investment	Name of pre-IPO investors	Approximate increased registered capital subscribed for by the pre-IPO investors	Approximate consideration paid by the pre-IPO investors	Settlement date of consideration	Approximate investment cost paid by the pre-IPO investors per share	Approximate percentage of discount from Offer Price*	Approximate percentage of shareholding after pre-IPO investment	Approximate percentage of shareholding interests upon Listing (assuming the Over-allotment Option is not exercised)
		(RMB million)	(RMB million)		(RMB)	(%)	(%)	(%)
15 June 2013	Finergy Development	137.88	400	26 June 2013	2.90	46.3	15.98	11.99
23 July 2014	Hangzhou Qingyu	5.70	20	6 August 2014	3.48	35.5	0.666	0.50
23 July 2014	Sichuan Rongchen	8.60	30	31 July 2014	3.48	35.5	0.999	0.75
23 July 2014	Yunnan Province Water	60.32	210	7 August 2014	3.48	35.5	45.43	31.57

* Assuming the Offer Price of HK\$5.40 per Offer Share, being the mid-point of the indicative Offer Price range of HK\$5.00 to HK\$5.80 per Offer Share.

Benefits of introduction of pre-IPO investors

Finergy Development, Hangzhou Qingyu, Sichuan Rongchen and Yunnan Province Water may provide support to us in terms of financing, business diversification, capital market opportunities, and enhancement of our corporate governance practices.

Information on the pre-IPO investors

Finergy Development

Finergy Development is an investment fund jointly established by Finergy (Tianjin) Equity Investment Management Partnership, an asset management company, acting as the general partner, and three limited partners, namely, Haihang Capital Holdings Co. Ltd., a company engaging in providing financial services; Kunlun Trust Co. Ltd., an asset management company; and Anbang Life Insurance Co. Ltd, an insurance company. The business of Finergy Development covers investment in non-listed enterprises and non-publicly offered securities of listed companies and related consultancy services. Its general partner and the three limited partners are all Independent Third Parties.

Hangzhou Qingyu

Hangzhou Qingyu is an investment fund jointly established by Xu Zhengjun, an individual investor, acting as the general partner, and a limited partner, namely, Hangzhou Bishui Qingyi Environmental Technology Development Partnership (limited partnership), a partnership engaging in the investment in the development of environmental technology projects. The

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business of Hangzhou Qingyu covers investment in and providing consultancy services to growth enterprises, acting as business representative for growth enterprises, providing asset management services to growth enterprise, participating in the set up of growth investment enterprises. Its general partner and limited partner are both Independent Third Parties.

Sichuan Rongchen

Sichuan Rongchen is a company incorporated in the PRC and is jointly-owned by Zhang Durong and Hu Yuanbin as to 20% and 80%, respectively. Its business covers project investment and management. Zhang Durong and Hu Yuanbin are both individual investors and Independent Third Parties.

Yunnan Province Water

See “Information about our Controlling Shareholders” for details of Yunnan Province Water.

Rights of the pre-IPO investors

Finergy Development

According to the Subscription Agreement I and the Shareholders Agreement I, the special rights enjoyed by Finergy Development will terminate automatically upon the Listing. These special rights include the following:

- Restrictions on transfer and right of first refusal

Yunnan Province Water shall not without the prior written approval of Finergy Development transfer or otherwise dispose of all or any of the equity interest in our Company. Such restrictions on transfer does not apply to the equity transfer of Yunnan Province Water for the purpose of the Listing (including, but limited to, the reduction/conversion of state-owned shares) and which will not result in the change of the Controlling Shareholder.

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If any then existing Shareholders proposes to dispose of all or any of their equity interest in our Company to third parties (the “**Selling Shareholder(s)**”) and obtains the prior written approval from Finergy Development (if necessary), such Shareholder shall promptly give a written notice (the “**Notice**”) to Finergy Development providing details of the proposed sale or transfer. If Finergy Development does not reply to the Selling Shareholder(s) within 30 business days of the Notice (the “**Reply Period**”), Finergy Development will be deemed to have waived this right of first refusal.

- Co-sale right

If Finergy Development has not exercised its right of first refusal within the Reply Period and the Selling Shareholder(s) proceed(s) to sell the equity interest to a prospective transferee, Finergy Development shall have the right to sell a certain amount of its equity interest as determined according to the Shareholders Agreement I to the prospective transferee at the same price and upon the same terms and conditions as stated in the Notice within 30 days after the Reply Period. If the prospective transferee refuses to purchase the equity interest in our Company held by Finergy Development, the Selling Shareholder(s) shall not sell its/their equity interest in our Company to such prospective transferee. If Finergy Development does not exercise the right of refusal or the co-sale right, the Selling Shareholder(s) shall complete the equity transfer within 120 days after the date of the Notice under the terms and conditions which are substantially the same as the terms and conditions as stated in the Notice. If the equity transfer does not complete within 120 days after the date of the Notice or completes under the terms and conditions which are substantially different from the terms and conditions as stated in the Notice, such equity transfer will be further subject to the right of refusal or the co-sale right of Finergy Development. The co-sale right does not apply to the transfer of equity by (i) the Management Shareholders or (ii) Yunnan Province Water for the purpose of the Listing (including, but limited to, the reduction/conversion of state-owned shares).

- Right to participation in subscription of new securities

Before the Listing, our Company shall issue a notice (the “**Issuance Notice**”) to Finergy Development within 5 business days after our plan for issuing any new securities or increasing our registered capital (the “**New Securities**”) is determined. Finergy Development shall have the pre-emptive right to subscribe for, on a pro rata basis, all or any part of the New Securities within 15 business days after receiving the Issuance Notice.

- Exit right

If the listing of our Company on a stock exchange in the PRC or elsewhere (including Hong Kong) as agreed by Finergy Development does not complete by 31 December 2015 or such other later date as agreed by the parties, Finergy Development has the right to request Yunnan Province Water to purchase all its equity interest in our Company at the

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consideration of the higher of (i) the original consideration paid by Finergy Development plus an amount equals to 12% of the original consideration or (ii) the audited book value of our Company which Finergy Development is entitled to as at the date on which Yunnan Province Water is requested to purchase such interest.

- Inspection right

Our Company shall provide Finergy Development with audited annual results, unaudited quarterly results and unaudited monthly results within a specified time.

- Nomination right

Finergy Development shall be entitled to nominate a Director and a Supervisor to our Company.

- Matters subject to Shareholders' approval

As set out in the Shareholders Agreement I, certain matters, which are reserved matters, shall be subject to approval by two-thirds of the voting rights in a general meeting. Such reserved matters include, but are not limited to, acquisition or disposal of the entire or a substantial part of our assets, winding up of our Company, amendment of the Articles of Association and any initial public offering of the shares of our Company.

Hangzhou Qingyu, Sichuan Rongchen and Yunnan Province Water

According to the Subscription Agreement II and the Shareholders Agreement II, Yunnan Province Water was not entitled to any special rights, and the special rights enjoyed by Hangzhou Qingyu and Sichuan Rongchen will terminate automatically upon the Listing. These special rights include the following:

- Restrictions on transfer and right of first refusal

Yunnan Province Water shall not without the prior written approval of Hangzhou Qingyu and Sichuan Rongchen transfer or otherwise dispose of all or any of the equity interest in our Company. Such restrictions on transfer does not apply to the equity transfer of Yunnan Province Water for the purpose of the Listing (including, but limited to, the reduction/conversion of state-owned shares) and which will not result in the change of the Controlling Shareholder.

If any of the then existing Shareholders proposes to dispose of all or any of their equity interest in our Company to third parties (the **"Selling Shareholder(s) II"**) and obtains the prior written approval from Hangzhou Qingyu, Sichuan Rongchen and Finergy Development (if necessary), each of them shall promptly give a written notice (the **"Notice II"**) to Hangzhou Qingyu, Sichuan Rongchen and Finergy Development providing details of the proposed sale or transfer. If two or all of Hangzhou Qingyu, Sichuan Rongchen and Finergy Development exercise their rights of first refusal, they shall exercise their rights

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in proportion to their shareholding in our Company. If Hangzhou Qingyu, Sichuan Rongchen or Finergy Development does not reply to the Selling Shareholder(s) within 30 business days of the Notice II (the “**Reply Period II**”), the non-responding party will be deemed to have waived this right of first refusal.

- Co-sale right

If Hangzhou Qingyu or Sichuan Rongchen has not exercised its/their right of first refusal within the Reply Period II and the Selling Shareholder(s) II proceed(s) to sell the equity interest to a prospective transferee, each of Hangzhou Qingyu and Sichuan Rongchen shall have the right to sell a certain amount of its equity interest as determined according to the Shareholders Agreement II to the prospective transferee at the same price and upon the same terms and conditions as stated in the Notice II within 30 days after the Reply Period II. If the prospective transferee refuses to purchase the equity interest in our Company held by Hangzhou Qingyu or Sichuan Rongchen, the Selling Shareholder(s) also shall not sell its/their equity interest in our Company to such prospective transferee. If Hangzhou Qingyu or Sichuan Rongchen does not exercise the right of refusal or the co-sale right, the Selling Shareholder(s) II shall complete the equity transfer within 120 days after the date of the Notice II under the terms and conditions which are substantially the same as the terms and conditions as stated in the Notice II. If the equity transfer does not complete within 120 days after the date of the Notice II or completes under the terms and conditions which are substantially different from the terms and conditions as stated in the Notice II, such equity transfer will be further subject to the right of refusal or the co-sale right of Hangzhou Qingyu or Sichuan Rongchen. The co-sale right does not apply to the transfer of equity by (i) the Management Shareholders or (ii) Yunnan Province Water with respect to the reduction/conversion of state-owned shares for the purpose of the Listing.

- Right to participation in subscription of new securities

Before the Listing, our Company shall issue a notice (the “**Issuance Notice II**”) to Hangzhou Qingyu, Sichuan Rongchen or Finergy Development within 5 business days after our plan for issuing any new securities or increasing our registered capital (the “**New Securities II**”) is determined. Each of Hangzhou Qingyu and Sichuan Rongchen shall have the pre-emptive right to subscribe for, on a pro rata basis, all or any part of the New Securities II within 15 business days after receiving the Issuance Notice II.

- Exit right

If the Listing of our Company on a stock exchange in the PRC or elsewhere (including Hong Kong) as agreed by Finergy Development, Hangzhou Qingyu and Sichuan Rongchen does not complete by 31 December 2015 or such other later date as agreed by the parties, each of Hangzhou Qingyu and Sichuan Rongchen has the right to request Yunnan Province Water to purchase all their respective equity interest in our Company at the consideration of the higher of (i) the original consideration paid by each

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of Hangzhou Qingyu and Sichuan Rongchen plus and amount equals to 12% of such original consideration or (ii) the audited book value of our Company which each of Hangzhou Qingyu and Sichuan Rongchen is entitled to as at the date on which Yunnan Province Water is requested to purchase such interest.

- Inspection right

Our Company shall provide Hangzhou Qingyu and Sichuan Rongchen with audited annual results, unaudited quarterly results and unaudited monthly results within a specified time.

- Matters subject to Shareholders' approval

As set out in the Shareholders Agreement II, certain matters, which are reserved matters, shall be subject to approval by two-thirds of the voting rights in a general meeting. Such reserved matters include, but are not limited to, acquisition or disposal of the entire or a substantial part of our assets, winding up of our Company, amendment of the Articles of Association and any initial public offering of the shares of our Company.

Lock-up and public float

The terms of the relevant agreements did not impose any lock up obligations over the equity interest held by any of the pre-IPO investors upon Listing. Upon Listing, the shareholding of each of Hangzhou Qingyu and Sichuan Rongchen will be less than 10%, the shares held by each of Hangzhou Qingyu and Sichuan Rongchen are Domestic Shares, they would not be counted towards part of the public float. Finergy Development will hold approximately 11.99% of the total issued share capital of our Company (assuming the Over-allotment Option is not exercised) and will become a substantial Shareholder of our Company. Yunnan Province Water will hold approximately 31.57% of the total issued share capital of our Company (assuming the Over-allotment Option is not exercised) and will remain to be the largest Controlling Shareholder of our Company. As the Shares held by each of them are Domestic Shares, they would not be counted towards part of the public float.

The Sole Sponsor has confirmed that the investments by Finergy Development, Hangzhou Qingyu, Sichuan Rongchen and Yunnan Province Water are in compliance with (i) the "Interim Guidance on Pre-IPO Investments" issued by the Listing Committee as the consideration for those investments was all settled more than 28 clear days before the date of our first submission of the listing application form to the Stock Exchange relation to the Listing; and (ii) the "Guidance on Pre-IPO investments" (GL43-12) issued by the Listing Committee as the special rights enjoyed by Finergy Development, Hangzhou Qingyu and Sichuan Rongchen will terminate upon Listing and Yunnan Province Water was not entitled to any special right.

As our Company did not issue any convertible instruments to Finergy Development, Hangzhou Qingyu, Sichuan Rongchen and Yunnan Province Water, the "Guidance on Pre-IPO investments in convertible instrument" issued by the Listing Committee does not apply.

HISTORY, REORGANISATION AND CORPORATE STRUCTURE

Our subsidiaries and joint venture

(1) *Our PRC Subsidiaries*

We typically incorporate an individual project company for each new project, but in cities or counties where we have existing projects, we generally handle all projects in that city or county through a single project company. As at the Latest Practicable Date, we had a total of 61 PRC subsidiaries, 40 companies of which were formed for the purpose of undertaking wastewater treatment projects, nine companies of which were formed for the purpose of undertaking tap water supply projects, two companies of which were formed for the purpose of undertaking construction and equipment sales and the remaining ten companies were formed to undertake other business such as O&M projects, solid waste disposal and environmental-friendly technology consultancy services. Details of these PRC subsidiaries are set out in Note 1.3 of the Accountant's Report set out in Appendix I to this prospectus.

(2) *Our overseas subsidiary*

Yunnan Water Hong Kong

Yunnan Water Hong Kong is a limited company incorporated in Hong Kong on 25 April 2014 and is a wholly-owned subsidiary of our Company. Yunnan Water Hong Kong mainly engages in water related services and investment and will act as our overseas investment platform to facilitate our expansion in overseas market in the future. As at the Latest Practicable Date, Yunnan Water Hong Kong has not conducted any substantial business.

(3) *Joint Venture of our Company*

Wenshan Water is a limited liability company established in the PRC by our Company and Wenshan Cheng Xiang Investment Co., Ltd. (文山州城鄉開發投資有限公司), an Independent Third Party, and is held as to 51% by our Company. The principal business of Wenshan Water is wastewater treatment.

Bazhou Keda Haorui is a limited company established in the PRC by our Company and Xinjiang Keda Construction Group Co., Ltd. (新疆科達建設集團有限公司), an independent Third Party, and is held as to 43.75% by our Company. The principal business of Bazhou Keda Haorui is water supply, wastewater treatment and reuse of reclaimed water.

(4) *Our principal operating subsidiaries*

(i) *Dali Water*

Dali Water is a limited liability company established in the PRC on 27 March 1997 with a registered capital of RMB30.6 million. Our Company holds 45% interest in Dali Water. Pursuant to an acting in concert agreement dated 9 April 2014 entered into between Yunnan Water Co. and Dali Asset Company, Dali Asset Company agreed to act in concert and vote in the same manner with our Company until the agreement is terminated by both parties. Thus,

HISTORY, REORGANISATION AND CORPORATE STRUCTURE

as at the Latest Practicable Date, our Company was entitled to control 70% of the voting rights of Dali Water. Dali Water has four tap water supply plants and one wastewater treatment plant in operation and three tap water supply plants and one wastewater treatment plant under construction.

As at 31 December 2014, the total asset of Dali Water was approximately RMB1,237.9 million. Its annual revenue was approximately RMB292.1 million with net profit of approximately RMB10.6 million for the year ended 31 December 2014.

(ii) *Jinghong Water*

Jinghong Water is a limited liability company established in the PRC on 7 April 2008 with a registered capital of RMB80 million. Our Company holds 51% interest in Jinghong Water and is the controlling shareholder.

Jinghong Water has three tap water supply plants and one wastewater treatment plant in operation and one wastewater treatment plant under construction.

As at 31 December 2014, the total asset of Jinghong Water was approximately RMB384.7 million. Its annual revenue was approximately RMB70.6 million with net profit of approximately RMB18.2 million for the year ended 31 December 2014.

(iii) *OriginWater Technology*

OriginWater Technology is a limited liability company established in the PRC on 2 February 2010 with a registered capital of RMB60 million. It is a wholly-owned subsidiary of our Company.

OriginWater Technology's business scope includes wastewater treatment technology design, project design, technology implementation and systematic integration, operation technology support, operation and management services as well as production and supply of membrane products, core components and membrane-related equipment. OriginWater Technology completed construction the Membrane Production Plant in July 2014, which has started trial operation in November 2014.

As at 31 December 2014, the total asset of OriginWater Technology was approximately RMB670.8 million before elimination⁽¹⁾. Its annual revenue was approximately RMB274.2 million before elimination⁽¹⁾ with net profit of approximately RMB83.6 million for the year ended 31 December 2014.

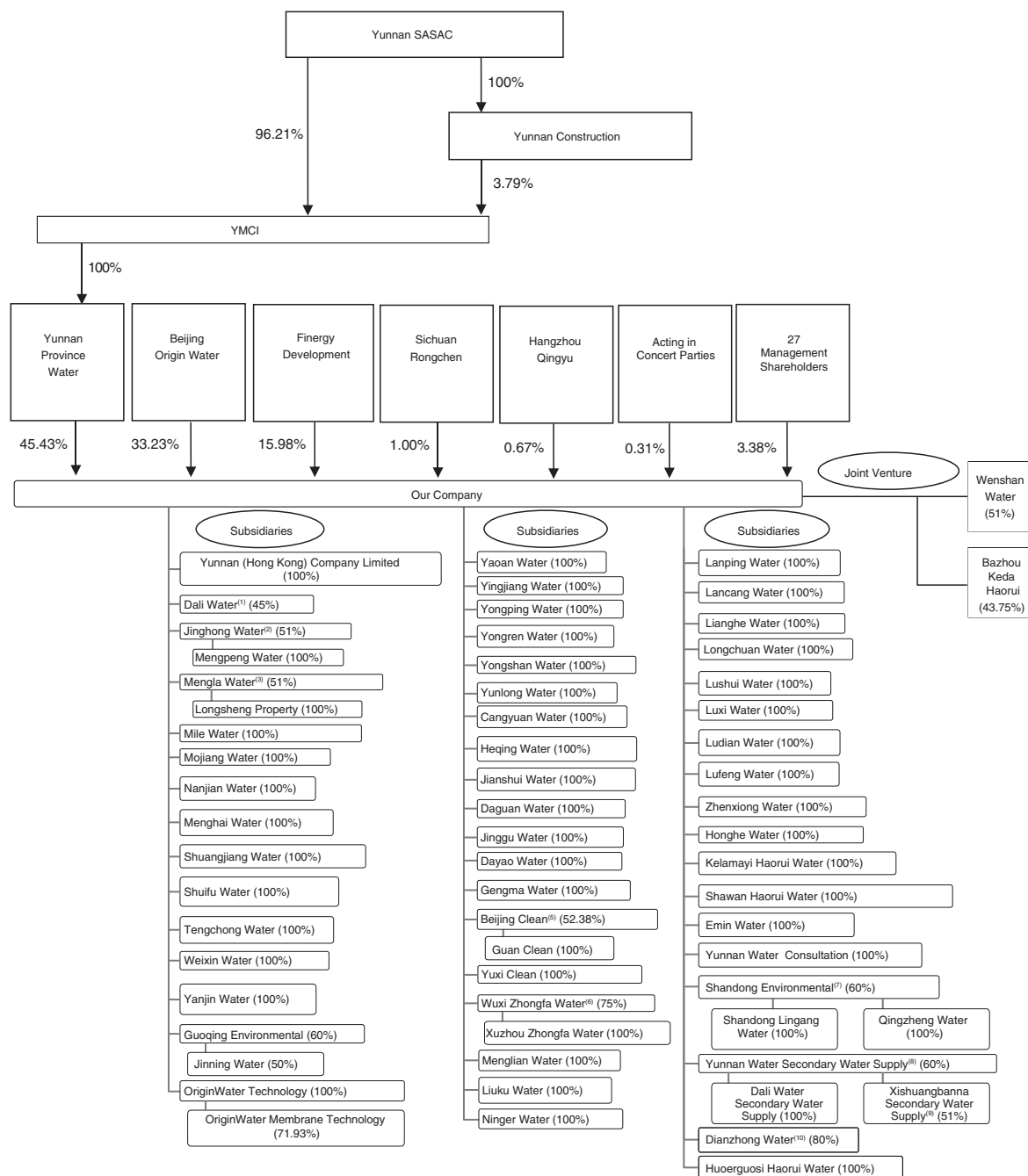
Note:

(1) For the elimination treatment, see "Business — Construction and equipment sales — EPC and equipment sales — Equipment sales".

HISTORY, REORGANISATION AND CORPORATE STRUCTURE

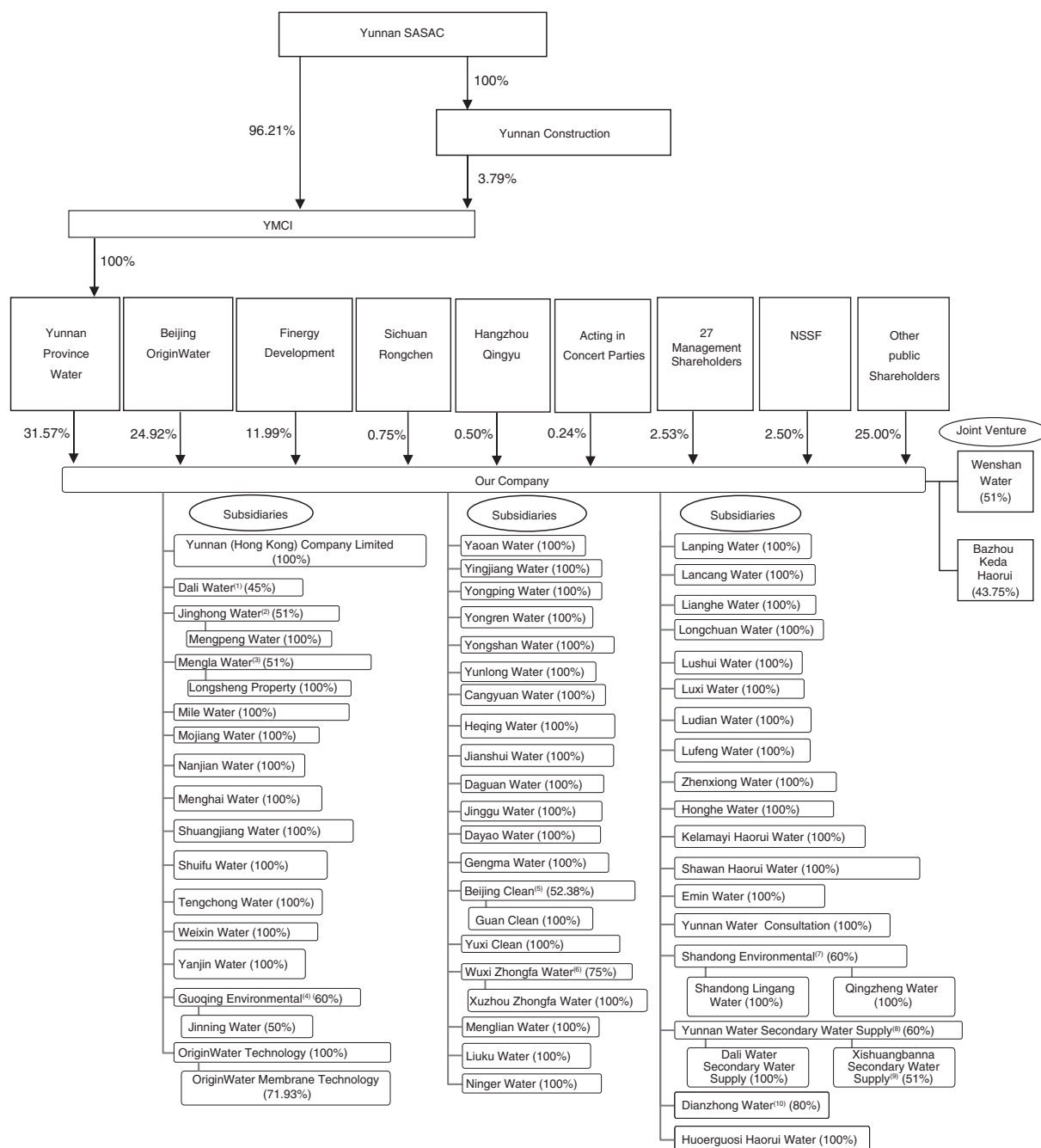
Corporate Structure

The following chart sets out our corporate structure as at the Latest Practicable Date:



HISTORY, REORGANISATION AND CORPORATE STRUCTURE

The following chart sets out our corporate structure immediately after the completion of the Global Offering (assuming the Over-allotment Option is not exercised):



HISTORY, REORGANISATION AND CORPORATE STRUCTURE

Notes:

- (1) The remaining interest in Dali Water is owned as to 25% by Dali Asset Company, as to 15% by Dali Travel Co. and 15% by Dali Urban Co. Each of them is our connected person by virtue of their respective interest in Dali Water. Pursuant to an acting in concert agreement dated 9 April 2014 between Dali Asset Company and Yunnan Water Co., our Company is entitled to control 70% of the voting right of Dali Water. The principal business of Dali Asset Company includes capital investment and investment in government related projects. The principal business of Dali Travel Co. includes capital investment and management. The principal business of Dali Urban Co. includes civil engineering, project management and public facilities management.
- (2) The remaining 49% interest in Jinghong Water is owned by Jinghong Urban investment, an Independent Third Party.
- (3) The remaining 49% interest in Mengla Water is owned by Jinghong City Investment Development Co. Ltd., which is an Independent Third Party as at the date of this prospectus and our connected person by virtue of its interest in Mengla Water. The principal business of Jinghong City Investment Development Co. Ltd. includes investment in construction of water facilities, road, infrastructure and travelling projects.
- (4) The remaining 40% interest in Guoqing Environmental is owned by Ma Xiaojun, which is an Independent Third Party as at the date of this prospectus and our connected person upon Listing by virtue of his interest in Guoqing Environmental.
- (5) The remaining 19.05%, 19.05%, 7.14% and 2.38% in Beijing Clean are owned by Zhang Zhigang, Liu Yunfei, Liu Tingshan and Qiao Huijun, respectively. Both Zhang Zhigang and Liu Yunfei were directors of Beijing Clean during the Track Record Period but have ceased to be directors as at the Latest Practicable Date. Each of Zhang Zhigang and Liu Yunfei is our connected person by virtue of his interest in Beijing Clean. As at the date of this prospectus, all of them are Independent Third Parties.
- (6) The remaining 25% interest in Wuxi Zhongfa Water is owned by Chen Zirong, which is an Independent Third Party as at the date of this prospectus and our connected person by virtue of his interest in Wuxi Zhongfa Water.
- (7) The remaining 40% interest in Shandong Environmental is owned by Shandong Environment Industry Holdings Co. Ltd., which is an Independent Third Party as at the date of this prospectus and is our connected person by virtue of its interest in Shandong Environmental. The principal business of Shandong Environmental Industry Holdings Co. Ltd. includes operation of environmental protection projects.
- (8) The remaining 40% interest in Yunnan Water Secondary Water Supply is owned by Kunming Geru Trading Co., Ltd, which is an Independent Third Party as at the date of this prospectus and is our connected person by virtue of its interest in Yunnan Water Secondary Water Supply. The principal business of Kunming Geru Trading Co., Ltd. includes trading of materials.
- (9) The remaining 49% interest in Xishuangbanna Secondary Water Supply is owned by Jinghong Water, which is another subsidiary of our Company.
- (10) The remaining 12%, 5% and 3% interest in Dianzhong Water are owned by Yunnan Dianzhong Development Group Co. Ltd., Anning Water Investment Development Co. Ltd., and Songming Niulanjiang Investment Co. Ltd., respectively. Yunnan Dianzhong Development Group Co. Ltd. is our connected person by virtue of its interest in Dianzhong Water. As at the date of this prospectus, all of them are Independent Third Parties. The principal business of Yunnan Dianzhong Development Group Co. Ltd. includes project management and construction of infrastructure. The principal business of Anning Water Investment Development Co. Ltd. includes investment, development, construction, management of water related projects and related technology development. The principal business of Songming Niulanjiang Investment Co. Ltd. includes investment, operation and management of wastewater treatment projects and other recycling business.

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OVERVIEW

We are one of the leading integrated service providers in the municipal wastewater treatment and water supply industries in Yunnan province, the PRC. According to the EY Report, in 2013, we ranked first in terms of both the number of our wastewater treatment facilities and the number of water supply facilities in Yunnan. In 2013, we had a market share of 26.2% and 6.1% in terms of the designed daily capacity of our wastewater treatment and water supply facilities in Yunnan, respectively.

Our business comprises four main segments, namely wastewater treatment, water supply, construction and equipment sales and others, which comprises O&M wastewater treatment, water supply and municipal waste disposal projects. These four segments cover the full spectrum of the water industry, ranging from raw water supply, tap water supply and wastewater treatment to engineering services, equipment sales and system integration. As at the Latest Practicable Date, we had a total of 92 projects⁽¹⁾, 63 of which were under concession arrangements. We engage in project design, investment, construction, operation and maintenance, provision of turnkey solutions and system integration services of core technologies with a view to providing safe, convenient and environmentally friendly wastewater treatment and water supply services to residents and enterprises in the PRC.

We first established our foothold in Yunnan and have gradually expanded our presence into Xinjiang, Shandong, Jiangsu and Guizhou since 2013. In 2012, 2013 and 2014, we derived approximately 100%, 82.9% and 74.2% of our revenue, respectively, from our subsidiaries registered in Yunnan, and approximately nil, 17.1% and 25.8% of our revenue, respectively, from our subsidiaries registered in other parts of the PRC. As at the Latest Practicable Date, we had 47 wastewater treatment concession projects, 15 tap water supply concession projects and one raw water supply concession project, with a total designed daily capacity of 0.9 million tonnes, 0.4 million tonnes and 0.1 million tonnes, respectively.

We principally adopt the BOT, TOT, BOO, TOO, BT, EPC and O&M project models in our business. For our BOT, TOT, BOO and TOO projects, we enter into concession agreements with local governments which typically last 30 years. We do not enter into such agreements for our BT, EPC and O&M projects. Key features of our project models are as follows:

Project Models	Key Features
BOT	• We finance and construct the facilities. • The local government grants us the right to operate the facilities and we usually bill our customers for wastewater treatment and/or water supply tariffs monthly or quarterly during the concession period. • We transfer the facilities back to the local government upon the expiration of the concession period for nil consideration.

Note:

- (1) In this prospectus, unless the context otherwise requires, the information and data of our concession projects as at the Latest Practicable Date have given effect to the disposal of the Gantong Water Supply Plant as described in “History, Reorganisation and Corporate Structure”.

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Project Models	Key Features
TOT	- We acquire the concession rights of the already-built facilities for an agreed consideration. - The local government grants us the right to operate the facilities and we usually bill our customers for wastewater treatment and/or water supply tariffs monthly or quarterly during the concession period. - We transfer the facilities back to the local government upon the expiration of the concession period for nil consideration.
BOO	- We finance and construct our own facilities. - The local government grants us the right to operate the facilities and we usually bill our customers for wastewater treatment and/or water supply tariffs monthly during the concession period. - We retain the facilities and secure a new concession right after the expiration of the existing concession period.
TOO	- We acquire the concession rights and the ownership of the underlying assets of the already-built facilities for an agreed consideration. - The local government grants us the right to operate the facilities and we usually bill our customers for wastewater treatment and/or water supply tariffs monthly during the concession period. - We retain the facilities and secure a new concession right after the expiration of the existing concession period.
BT	- We finance and construct the facilities. - Our customer repurchases the facilities and we bill the repurchase fees in instalments upon the completion of construction.
EPC	- We engage in design, procurement, engineering and construction of the facilities. - We bill our customers for advanced payments of at least 25% of the total payment after signing the EPC agreement. Remaining payments are billed (except for retention money) upon completion of construction and acceptance of the EPC projects.
O&M	We are engaged by the local governments or facility owners to operate their wastewater treatment, water supply or municipal waste disposal facilities for a monthly or quarterly management fee.

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The following table sets out the numbers and type of our projects and their designed daily capacities as at the Latest Practicable Date:

Number of Projects ⁽¹⁾ Designed Daily Capacity (10,000 tonnes/day) ⁽²⁾	Concession Projects					Construction and Equipment Sales		Others	Total
	BOT ⁽³⁾	TOT	BOO ^{(4) (5)}	TOO	Subtotal	BT ⁽⁶⁾	EPC ⁽⁷⁾	O&M	
Wastewater treatment:									
- Number of projects	35	5	5	2	47	2	3	21	73
- Designed daily capacity	51.5	7.3	18.9	9.0	86.7	0.5	0.2	19.9	107.3
Tap water supply:									
- Number of projects	—	2	13	—	15	—	—	1	16
- Designed daily capacity	—	7.5	34.0	—	41.5	—	—	0.5	42.0
Raw water supply:									
- Number of projects	1	—	—	—	1	—	—	—	1
- Designed daily capacity	10.6	—	—	—	10.6	—	—	—	10.6
Municipal waste disposal:									
- Number of projects	—	—	—	—	—	1	—	1	2
- Designed daily capacity (tonnes/day)	—	—	—	—	—	70	—	400	470
Total									
- Number of projects	36	7	18	2	63	3	3	23	92
- Designed daily capacity ⁽²⁾	62.1	14.8	52.9	9.0	138.8	0.5	0.2	20.4	159.9

Notes:

- (1) In this prospectus, unless the context otherwise requires, the number of our projects comprises our concession projects in operation and under construction, our O&M projects in operation and our BT and EPC projects that are completed and under construction as at the Latest Practicable Date.
- (2) This refers to the designed daily capacity of our wastewater treatment, tap water supply and raw water supply facilities as at the Latest Practicable Date.
- (3) Among these BOT projects, five projects with an aggregate designed daily capacity of 221,000 tonnes were still under construction as at the Latest Practicable Date.
- (4) Among these BOO projects, seven projects with an aggregate designed daily capacity of 210,000 tonnes were still under construction as at the Latest Practicable Date.
- (5) In March 2015, we disposed of the Gantong Water Supply Plant, and as a result, such project is not included in the above table. See “Summary — Recent Developments” and “History, Reorganisation and Corporate Structure”.
- (6) Among these BT projects, one project with a designed daily capacity of 5,000 tonnes was still under construction as at the Latest Practicable Date.
- (7) Among these EPC projects, one project with a designed daily capacity of 300 tonnes was still under construction as at the Latest Practicable Date.

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As at the Latest Practicable Date, we had 92 projects, including 36 BOT projects, seven TOT projects, 18 BOO projects, two TOO project, three BT projects, three EPC projects and 23 O&M projects, either under construction or in operation in Yunnan, Xinjiang, Shandong and Jiangsu, the PRC. The following table sets forth details of the projects:

	Number of projects												
	Wastewater treatment				Water supply				Municipal waste disposal				Total
	Yunnan	Xinjiang	Shandong	Jiangsu	Yunnan	Xinjiang	Shandong	Jiangsu	Yunnan	Xinjiang	Shandong	Jiangsu	
Concession projects													
BOT	28	1	2	4	—	1	—	—	—	—	—	—	36
TOT	4	—	—	1	1	—	1	—	—	—	—	—	7
BOO	5	—	—	—	13	—	—	—	—	—	—	—	18
TOO	2	—	—	—	—	—	—	—	—	—	—	—	2
Sub-total	39	1	2	5	14	1	1	—	—	—	—	—	63
BT	2	—	—	—	—	—	—	—	1	—	—	—	3
EPC	3	—	—	—	—	—	—	—	—	—	—	—	3
O&M	21	—	—	—	1	—	—	—	1	—	—	—	23
Total	65	1	2	5	15	1	1	—	2	—	—	—	92

We also engage in equipment sales business in Yunnan and Guizhou. We produce, sell and install equipment for wastewater treatment, water supply and waste disposal facilities. Our main customers are the contractors undertaking the construction work for our wastewater treatment and tap water supply projects as well as contractors undertaking construction work for third parties. See “Business — Construction and Equipment Sales — EPC and Equipment Sales — Equipment Sales”.

Driven by our expansion strategies through organic development and acquisitions, our revenue increased from RMB398.5 million in 2012 to RMB1,100.8 million in 2014, representing a CAGR of 66.2%; our gross profit increased from RMB139.7 million in 2012 to RMB333.6 million in 2014, representing a CAGR of 54.5%; and our net profit increased from RMB126.1 million in 2012 to RMB187.9 million in 2014, representing a CAGR of 22.1%.

During the Track Record Period, we acquired a number of companies and businesses. Our scale of operations were expanded within a short period of time through the consolidation of the results of (i) OrginWater Technology, which engages in EPC & equipment sales, beginning in October 2012; (ii) Liuku Water, which engages in water supply, beginning in June 2014; (iii) the Gejiu Wastewater Treatment Plant and Mengzi Wastewater Treatment Plant, which are both owned by Honghe Water and engage in wastewater treatment, beginning in May 2014; (iv) Mengla Quanyuan Water Supply Co., Ltd., which engages in water supply, beginning in April 2013; (v) Guoqing Environmental, which engages in construction and equipment sales and O&M projects, beginning in September 2013; (vi) Beijing Clean, which engages in construction services and municipal waste disposal projects, beginning in January 2014; and (vii) Wuxi Zhongfa Water, which engages in wastewater treatment, beginning in May 2014. See “Financial Information — Significant Factors Affecting our Results of Operations and Financial Condition — Expansion of our Business”.

OUR COMPETITIVE STRENGTHS

We are one of the leading integrated service providers in the municipal wastewater treatment and water supply industries in Yunnan, and one of the core investment and operation platforms for the Yunnan provincial government in the wastewater treatment and water supply segments.

We are one of the leading integrated service providers in the municipal wastewater treatment and water supply industries in Yunnan. Since we have the largest number of wastewater treatment and water supply facilities in Yunnan, we have a natural monopoly in the municipal and county regions of Yunnan. Our strong presence in Yunnan enables us to enjoy a first-mover advantage which is expected to facilitate our future expansion in Yunnan.

Our business covers the full spectrum of the water industry. The upstream being raw water supply, the mid-stream being tap water supply and the downstream being wastewater treatment, all of which are within our business scope. Such integrated business model, which we refer to as the “Grand Water Model” (大水務模式), leads to significant environmental and economic benefits. For example, we utilise our advanced membrane technologies to ensure the quality of water supply, improve recycling efficiency, enable water reuse and reclamation and reduce water resources wastage, which can in turn generate significant environmental benefits. In addition, since our raw water supply, tap water supply and wastewater treatment businesses operate simultaneously, we are able to create (i) high quality raw water to lower the tap water treatment cost; and (ii) a wide variety of business opportunities and income sources, ranging from engineering and construction to technology application, thereby generating significant economic benefits.

We are also one of the core investment and operation platforms for the Yunnan provincial government in the wastewater treatment and water supply segments. Leveraging our leading market position and technological advantages, we can benefit from the favourable market potential and industry trends in Yunnan. There is significant growth potential in the water market in Yunnan given its relatively low daily wastewater treatment and water supply capacity compared to the growth rate of its GDP per capita and population as compared with other provinces, municipalities and autonomous regions in the PRC.

According to the EY Report, at the end of 2012, the daily wastewater treatment capacity in Yunnan was 3.1 million tonnes, representing 2% of the national daily wastewater treatment capacity and ranked 18th among the 31 provinces, municipalities and autonomous regions in the PRC, and the daily water supply capacity in Yunnan was 5.1 million tonnes, representing 1% of the national daily water supply capacity and ranked 22nd among the 31 provinces, municipalities and autonomous regions in the PRC. Considering that the annual growth rate of GDP per capita in Yunnan ranked 3rd nationwide in both 2012 and 2013 and the annual growth rate of the population in Yunnan ranked 15th nationwide in both 2012 and 2013, we expect that the Yunnan provincial government is committed to develop the wastewater treatment and water supply industries. EY Advisory expects that from 2012 to 2018, the daily wastewater treatment capacity in Yunnan will increase by 1.7 million tonnes and reach 4.8 million tonnes,

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representing a CAGR of 7.6% and the daily water supply capacity in Yunnan will increase by 0.5 million and reach 5.6 million tonnes, representing a CAGR of 1.6% respectively. As a result, we believe there is ample opportunities for us to capitalise on the expected increases in demand for wastewater treatment and water supply in Yunnan.

We possess a strong track record of providing a wide range of services in Yunnan and the ability to create strong synergies among our business segments.

We provide a wide range of services in Yunnan, covering project design, investment, construction, operation and management in the municipal wastewater treatment and water supply industries. We also provide a portion of such services in other regions, including Xinjiang, Shandong and Jiangsu. Since we have the capabilities to provide raw water supply, tap water supply, wastewater treatment and municipal solid waste disposal services, we could satisfy our customers' needs at various stages of the supply chain.

We utilise advanced core technologies for wastewater treatment and water supply processes and provide high-quality equipment and system integration services to our customers. We have a professional procurement team which allows us to independently monitor the quality of our principal equipment, parts and components. We have also established an efficient and systematic project management system and operational management procedures in order to professionally manage the construction and operation of our wastewater treatment and water supply projects, improve the utilisation rates of our facilities, ensure the quality of the wastewater effluent and supplied tap water and extend the operating life of our facilities. During the Track Record Period, we participated in the construction and/or operation of 92 wastewater treatment, water supply and municipal waste disposal projects in Yunnan, Xinjiang, Shandong and Jiangsu.

We are able to create strong synergies among our business segments because the requirements for management and research resources are similar, the technologies are complementary to each other and the customer base and supplier network can be shared. Meanwhile, the different business models can bring multi-channel, stable and sustainable cash flows which enhance our ability to obtain the necessary financing for, and accelerate the development and construction of, our projects. To further enhance our synergies, we have established four business centres, including a market & investment centre, technology & risk control centre, project management centre and operation & management centre. Our four business centres collaborate closely to centrally manage different aspects of the operations of our subsidiaries that undertake our projects.

Our Controlling Shareholders base comprises both state-owned and privately-owned enterprises which we believe can enhance our ability to expand our business.

We believe we have a distinct advantage in developing wastewater treatment and water supply projects, as well as seeking suitable investment and acquisition targets in the PRC as a result of our shareholding structure which comprises a mixture of state-owned and privately-owned enterprises.

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With Yunnan Province Water, a state-owned enterprise as our largest Controlling Shareholder, we were able to accumulate a number of strategic water assets within a short period of time. When the predecessor of our Company was established in 2011, Yunnan Province Water injected 33 wastewater treatment, 11 water supply and one municipal waste disposal facilities as capital contribution into our Company. These wastewater treatment and water supply facilities laid a solid foundation for our business development during the Track Record Period. We are also able to maintain a good relationship with local governments or their designees and enjoy a favourable position in competing with other privately-owned competitors in obtaining wastewater treatment and water supply projects as a result of our SOE background.

With Beijing OriginWater, a privately-owned enterprise as our second largest Controlling Shareholder, we have developed a market-driven approach and established a flexible and efficient management system capable of responding to vigorous changes in market conditions arising from technological advancement, continuous tightening in environmental standards, intensifying competition, as well as increasing development cost.

As most of the local governments in the PRC do not have sufficient experience in cooperating with enterprises to implement the wastewater treatment and water supply projects under the public sector and private sector partnership model, we expect that the local governments are inclined to cooperate with enterprises similar to us, which possess sufficient experience in successfully developing wastewater treatment and water supply facilities.

We are able to benefit from the accelerated pace of urbanisation in the PRC, and the PRC Government's increasing emphasis on, and policy support for, environmental protection.

According to the National New Urbanisation Plan (2014-2020) (國家新型城鎮化規劃(2014-2020年)), the PRC's urbanisation rate in 2020 is expected to reach 60% compared with 53.7% in 2013. The accelerated pace of urbanisation in the PRC leads to an increase in urban population and a growth in GDP per capita, which in turn lead to an increase in demand for construction and development of basic infrastructure including wastewater treatment and water supply facilities. According to such plan, the urban wastewater treatment rate in the PRC is expected to reach 95% in 2020 as compared with 87.3% in 2012 and the urban tap water supply rate in the PRC is expected to reach 90% in 2020 as compared with 81.7% in 2012. We believe we are able to benefit from this accelerated pace of the urbanisation in the PRC and develop our business further.

According to the 12th Five-Year Plan for the Economy and Social Development of the PRC (中華人民共和國國民經濟和社會發展第十二個五年規劃綱要) promulgated by the Central Government on 18 October 2010 (the “**12th Five-Year Plan**”), the PRC Government intends to continuously increase investments in environmental protection. During the 12th Five-Year Plan Period, the planned investment in national water supply and wastewater treatment and recycling facilities is expected to be approximately RMB430 billion and the PRC Government targets to increase the daily wastewater treatment capacity by 66.8% to 208 million tonnes from 2011 to 2015.

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Moreover, according to the Comprehensive Scheme on Energy Saving and Emission Reduction during the 12th Five-Year Plan Period (《“十二五”節能減排綜合性工作方案》), a performance assessment on emission reduction will be used as an important basis for a comprehensive evaluation and assessment of the management team of local and central government-owned enterprises as well as their selection and appointment. For the purpose of satisfying such performance assessment, we believe that the local governments will emphasise the development of the water industry and will promulgate more preferential policies for the water industry.

Promulgated by the State Council on 2 April 2015, the Water Action Plan aims to improve water quality with 10 specific measures. See “Regulatory Environment — PRC Laws and Regulations Relating to Environmental Protection”. We expect to benefit from the Water Action Plan mainly in the following ways: (i) we expect that the growth of our business will be accelerated as the demand for water related products and services in the PRC is expected to increase due to the implementation of the Water Action Plan; (ii) we expect that our wastewater treatment unit price will increase and our wastewater treatment projects are more likely to be profitable and we are more likely to collect our wastewater treatment tariffs; (iii) we expect that the demand for our water supply services will increase and that we will be able to charge progressive tariffs for our water supply services as the over-exploitation of groundwater and the construction of unauthorised wells are prohibited by the Water Action Plan; (iv) we expect that the increase in the standards for wastewater effluent and the enhanced protection of water resources will promote the sales of our membrane products and technologies; and (v) we expect that the increase in diversified investments and government funding will provide more financing resources for our water projects.

Examples of favourable policies to promote the water industry include government grants and tax exemption and reduction. For the years ended 31 December 2012, 2013 and 2014, we recognised government grants of RMB6.5 million, RMB67.9 million and RMB34.9 million, respectively, all of which were in relation to our construction and operation of wastewater treatment and tap water supply facilities and relevant technology research. As at the Latest Practicable Date, 42 of our subsidiaries operating in Western China were subject to a preferential enterprise income tax of 15%, and 29 of our subsidiaries operating wastewater treatment projects were subject to a preferential policy of a three-year full exemption followed by a three-year half exemption of the PRC enterprise income tax. For the years ended 31 December 2012, 2013 and 2014, our effective tax rate, calculated as income tax expense divided by profit before income tax, was 21.2%, 20.4% and 16.9%, respectively.

According to the Notice of the State Council on Regulating Preferential Policies on Tax and other Benefits (《國務院關於清理規範稅收等優惠政策的通知》) (the “**Notice**”), all preferential policies on tax and other benefits which violate PRC laws and regulations or affect fair competition shall be abolished or regulated. Specifically, the Notice abolishes and regulates (i) any tax benefits promulgated by local governments or their designees which do not have tax administration power under the specific tax laws and regulations and the provisions of the Law of the People’s Republic of China on Regional National Autonomy (《中

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華人民共和國民族區域自治法》); and (ii) any fiscal expenditures (whether tax or not) promulgated by local governments to attract external enterprises to establish business operations in their governing regions. See “Regulatory Environment — Regulating Preferential Policies on Tax and Other Aspects” for details of the Notice.

Our PRC legal adviser is of the view that, except for government grants totalling RMB0.3 million (the “**Investment Grants**”), none of our tax benefits or government grants received during the Track Record Period are subject to the regulation under the Notice. During the Track Record Period, apart from the Investment Grants, we enjoyed and received various tax benefits and government grants, namely (i) the preferential tax rates of 15% for our high-tech subsidiaries and our subsidiaries established in Western China, and the three-year full exemption followed by a three-year half exemption for PRC enterprise income tax as well as the exemption from value-added tax with respect to our wastewater treatment tariffs for our subsidiaries engaged in wastewater treatment (the “**Preferential Tax Rates**”); and (ii) government grants with respect to our BOO and BOT/TOT projects, a special fund appropriation for a national high-tech research and development programme in the PRC, grants converted from government debts, loans with discounted interest and funds for small and medium-sized enterprises (the “**Government Grants**”).

Our PRC legal adviser is of the view that the Preferential Tax Rates are not subject to the regulation under the Notice because they are promulgated by, and comply with, the relevant specific tax laws and regulations including the Enterprise Income Tax Law of the PRC (《中華人民共和國企業所得稅法》), the Implementation Regulations of 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》), the Circular on Issues Concerning Tax Policies for In-depth Implementation of Western Development Strategies (《國家稅務總局、財政部、海關總署關於深入實施西部大開發戰略有關稅收政策問題的通知》), the Circular of the Ministry of Finance and the SAT Concerning Value-Added Tax Policy on Sewage Treatment Charges (《財政部、國家稅務總局關於污水處理費有關增值稅政策的通知》) and the Value Added Tax Policy of Comprehensive Utilization 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》).

Our PRC legal adviser is also of the view that our Government Grants are not subject to the regulation under the Notice because: (i) they do not fall into the categories prohibited or regulated by the Notice; and (ii) they comply with the relevant laws and regulations, including but not limited to, the Measures for the Administration of Construction Project Funds for Pipe Networks Supporting Urban Sewage Treatment Facilities During the 12th Five-Year Plan Period (《“十二五”期間城鎮污水處理設施配套管網建設專案資金管理辦法》), the Regulations on Implementation of Theme Management of National Scientific Research Project (《關於國家科研計畫實施課題制管理規定的通知》) and the Several Opinions of the State Council on Further Accelerating Development of Small and Medium-sized Enterprises (《國務院關於進一步促進中小企業發展的若干意見》).

Our PRC legal adviser is of the view that our Investment Grants are subject to the regulation under the Notice because the grants were paid to us by the Administration Committee of Kunming High-tech Industrial Development Zone (the “**Administration Committee**”) in order to attract us to establish business operations in the Kunming High-tech Industrial Development Zone.

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Even though the Investment Grants are subject to regulation under the Notice, our Directors and our PRC legal adviser are of the view that the implementation of the Notice will not have a material and adverse effect on us, because (i) the Notice does not specifically require us to return the Investment Grants which have already been granted to us; (ii) the amount of the Investment Grants are negligible; (iii) the Investment Grants granted by the local government authorities complied with the policies on attracting investments implemented by the Administration Committee when they were granted and before the Notice had become effective; and (iv) whether the Investment Grants need to be regulated and/or abolished is subject to further affirmation by the competent government authorities.

We have a track record of successful acquisition, development, operation and financing of high quality wastewater treatment and water supply projects.

During the Track Record Period, we acquired 19 wastewater treatment and tap water supply projects from third parties. This expansion strategy through acquisition allowed us to accumulate projects with good operating condition and high profitability within a short timeframe. During the Track Record Period, we have made reference to a range of criteria when evaluating an acquisition opportunity, such as the population and the economic condition of the area where the project is located, the financial condition of the local government, the tariffs charged and the scale of operations. Our targeted regions for acquisition include central Yunnan, Northern, Eastern, Northwest and Southwest China.

In addition to our acquisition strategy, we have expanded our geographic footprint through organic development of water projects under BOT, TOT, BOO, BT, EPC or O&M project models. During the Track Record Period, we developed 28 water projects, 18 of which were in operation as at the Latest Practicable Date. Leveraging our position in Yunnan, we have expanded our projects into Xinjiang, Shandong and Jiangsu since 2013.

We have strong operation capabilities and as at the Latest Practicable Date, we had a total of 90 water projects under various project models with the designed daily wastewater treatment and water supply capacity amounting to 1.6 million tonnes in total. As at the Latest Practicable Date, we had 75 water projects in operation with the designed daily capacity amounting to 1.2 million tonnes. Our internal quality control team and the external quality management agencies are required to conduct quality inspections on our equipment, parts and components and the wastewater effluent and supplied tap water.

The growth of our business has been enhanced by our strong financing capabilities through a variety of channels. We have raised funds for our wastewater treatment and water supply projects and cooperated well with banks, investors and private equity funds. We have raised RMB400.0 million, RMB20.0 million and RMB30.0 million on 15 June 2013, 23 July 2014 and 23 July 2014, respectively, from our pre-IPO investors to replenish our working capital and optimise our capital structure. See “History, Reorganisation and Corporate Structure”. We have broad experience in using a variety of financing structures, such as project financing and debt financing, designed according to the risks and requirements of each project, with the aim to reduce investment risk and maximise the profit of each project.

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We have an experienced management team supported by highly skilled employees with extensive industry experience and strong technical expertise.

We have an experienced management team with substantial experience in the water industry. Our management team has in-depth knowledge of the wastewater treatment and water supply businesses, as well as a solid understanding of the PRC markets. We believe their industry experience, coupled with their vision and entrepreneurial spirit, enables us to compete successfully in the market by timely adjusting our business strategies and operations based on our customer's needs and market conditions.

We are committed to cultivate our employee's capabilities and qualifications internally and recruit talent externally. Some of our employees, who are industry experts and professional technicians in the water industry, have received professional and academic qualifications and have extensive industry experience. We develop our employees through regular in-house and external trainings and foster a strong sense of belonging among employees by granting share award and providing a rewarding work environment. We have built a team of high-quality management and workforce.

OUR STRATEGIES

Our strategies are to strengthen our foothold in Yunnan and target favourable regions in the PRC with the aim to become one of the leading integrated service providers in the municipal wastewater treatment and water supply industries in the PRC. We aim to achieve these strategies by:

Continuing to strengthen our industry position in Yunnan, actively expanding our businesses in other areas in the PRC where we have competitive advantages and looking for opportunities to expand into overseas markets.

As at the Latest Practicable Date, we had a total of 82 projects in Yunnan, constituting 89.1% of our projects. We will continue to strengthen our industry position in Yunnan by expanding our business into other cities and counties in Yunnan, especially central Yunnan.

Leveraging on our industry position in Yunnan, we will continue to expand our business in favourable areas in the PRC where we have competitive advantages, especially in Northern, Eastern, Northwest and Southwest China. As at the Latest Practicable Date, we had expanded into Xinjiang, Shandong, Jiangsu and Guizhou. We had two, three and five wastewater treatment or water supply projects, respectively, in Xinjiang, Shandong and Jiangsu and sold equipment for a waste disposal project in Guizhou through our subsidiary in Beijing as at the Latest Practicable Date. For the years ended 31 December 2012, 2013 and 2014, approximately nil, 17.1% and 25.8% of our revenue were derived from our subsidiaries registered in Xinjiang, Shandong, Jiangsu and Beijing, respectively.

Although our current water projects are all based in the PRC, we will pay close attention to certain overseas markets such as Southeast Asia and South Asia with the aim to expand overseas in the future. We have established a subsidiary in Hong Kong to act as the investment platform for our future overseas development.

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Continuing to seek acquisition opportunities.

According to the EY Report, mergers and acquisitions have become an important strategy for water enterprises in the PRC to expand their business. Currently, large water enterprises with capital and technology prefer to enter into new markets and increase their market share by acquiring existing local water companies. As part of our expansion plan, we will consider acquiring suitable water companies or wastewater treatment and water supply projects, which will complement our business or enable us to enter into new markets at strategic locations.

Our initial targets for expansion are selected provinces in the PRC. We plan to select established water companies to leverage their existing networks and relationships with the local governments. To establish our presence and effectively gain recognition in these markets, we plan to focus on county-level water market. According to the EY Report, county-level water market is becoming the major market for water supply businesses due to the support and investments from local governments. The proportion of county-level water supply and drainage investments among the total investments at both city and county-levels has been increasing and is expected to reach 40% of the total investments at the city and county-levels by 2018, according to the EY Advisory.

We believe that, through a series of acquisitions, our wastewater treatment and water supply capacities will continue to increase and our market position and market share will further improve. As at the Latest Practicable Date, we had not yet identified any acquisition target either in the PRC or overseas other than the potential cooperation opportunities as disclosed in “Business — Potential Cooperation Opportunities” and certain companies in which our Controlling Shareholders have an interest and we are granted a right to acquire such companies as stipulated in the Non-competition Agreements and disclosed in “Relationship with our Controlling Shareholders”.

Enhancing our research and development capabilities.

We will continue to invest in technology research and development, such as membrane manufacturing and application technologies, in order to strengthen our technical position in the industry. Apart from the membrane manufacturing and application technologies, we will also conduct research and development on other technologies, such as sludge disposal and recycling. In order to enhance our research and development capabilities, we will increase our investment in research and development, recruit talents and strengthen training for our staff, incentivise innovation, improve our technical management and engage in collaborative research and development initiatives with local governments and academic institutions. We plan to invest RMB2.2 million, RMB2.4 million and RMB2.7 million in research and development for the years ending 31 December 2015, 2016 and 2017, respectively. We expect that the increase in investment in research and development will not significantly increase our administrative expenses and will not adversely affect our cost structure or net profit margin.

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During the Track Record Period, we collaborated with several local governments and academic institutions to conduct research and development on wastewater treatment and water supply. We will continue to strengthen our cooperation with academic institutions and other professionals to monitor the trends in technology development, conduct research on advanced technologies and convert our research achievements into engineering capabilities that can be applied commercially. For the years ended 31 December 2012, 2013 and 2014, our research and development costs were RMB11,476, RMB4.7 million and RMB4.2 million, respectively, accounting for nil, 6.2% and 3.3% of our administrative expenses, respectively, and the government subsidies granted for our research and development were RMB1.9 million, RMB2.1 million and RMB12.3 million, respectively. As at the Latest Practicable Date, our research and development team consisted of 11 personnel of which nine of whom held a bachelor's degree or above. We believe that our enhanced research and development capabilities will enable us to maintain a competitive advantage as an industry pioneer, preserve our market position and benefit from continuously improving industry standards in the PRC.

Developing our planned projects.

We intend to engage in a number of large-scale water projects proposed in the Dianzhong New Industrial Zone (滇中產業新區). The development of the Dianzhong New Industrial Zone is an important strategy of the Yunnan provincial government and the PRC Government. Based on the proposed town planning in Dianzhong, we believe that the water projects in Dianzhong will exceed the scale of our water projects owned by Dali Water in terms of the future projected revenue, daily treatment capacity and total investment amount. The revenue derived by Dali Water was RMB71.9 million, RMB91.0 million and RMB292.1 million, respectively, representing 18.0%, 13.2% and 26.5% of our revenue, respectively, for the years ended 31 December 2012, 2013 and 2014. As at the Latest Practicable Date, the designed daily capacity of the wastewater treatment and water supply of our water projects of Dali Water amounted to 0.3 million tonnes.

According to the proposal for the Dianzhong New Industrial Zone Haikou — Caopu Water Diversion and Water Environment Comprehensive Utilisation Project (the **“Haikou — Caopu Water Project”**) prepared by Yunnan Institute of Water & Hydropower Engineering Investigation, Design and Research, the Haikou — Caopu Water Project will comprise seven sub-projects including, but not limited to, water storage project, water diversion project and water conservation project, to be constructed in the Anning district and Yimen district of the Dianzhong New Industrial Zone. The total investment amount of this project will be approximately RMB6.8 billion with a construction period of approximately 42 months. As at the Latest Practicable Date, no sub-project of the Haikou — Caopu Water Project had commenced construction. We will actively explore opportunities to undertake suitable sub-projects of the Haikou — Caopu Water Project and other water projects in the Dianzhong New Industrial Zone in the future. In accordance with relevant PRC laws and regulations, we are required to fund at least 20% of the investment in Dianzhong through our internal resources. See “Regulatory Environment — Capital Fund System”. We will fund the remaining through bank borrowings

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and/or proceeds from the issuance of corporate bonds. We need to enter into separate agreements to undertake each of these water projects. As at the Latest Practicable Date, we had not entered into an agreement for any water project in Dianzhong. See “Business — Planned Projects”.

We entered into a BT agreement in August 2014 and two supplemental agreements in December 2014 and March 2015 with New Century Dianchi, our connected person, to undertake the construction of water related projects in the Kunming Dianchi International Exhibition Centre, which is a proposed exhibition centre together with supporting residential, commercial and tourism facilities located in Kunming. We expect to construct various water facilities with a total investment of up to RMB300 million for the period from May 2015 to June 2017, subject to automatic renewal for an additional term of three years. In accordance with relevant PRC laws and regulations, we are required to fund at least 20% of the investment through our internal resources. See “Regulatory Environment — Capital Fund System”. We will fund the remaining through bank borrowings and/or proceeds from the issuance of corporate bonds. We will sign separate ancillary investment agreement for the development of each facility in the near future. We entered into one separate ancillary investment agreement in October 2014. See “Business — Planned Projects” and “Connected Transactions”.

In order to expand our business scope, we also intend to undertake wastewater reclamation and waste incineration and power generation projects. We intend to upgrade our existing, or invest in the construction of, wastewater treatment projects for the purpose of treating wastewater intensively and supplying reclaimed wastewater. We have also entered into a concession agreement with the local government of Yuxi, Yunnan to invest in, construct and operate a waste incineration and power generation facility in Yuxi under a BOT project model. See “Business — Planned Projects — Wastewater Reclamation and Waste Incineration and Power Generation Projects”. As these are new business sectors for us, our management will need to build up their experience in these areas. We may also face significant competition in relation to the waste incineration and power generation businesses. Although the waste incineration and power generation industry in the PRC is relatively fragmented and differs by region, the majority of the market share is still occupied by a small number of major national players. See “Risk Factors — Risks Relating to Our Business and Industry — Our possible expansion into the municipal waste disposal, waste incineration and power generation, wastewater reclamation and chemical waste disposal businesses may not be successful”. During the Track Record Period, we did not derive any revenue from wastewater reclamation or waste incineration and power generation projects. However, we believe that the water reclamation and waste incineration and power generation businesses will provide additional income sources in the future. In accordance with relevant PRC laws and regulations, we are required to fund at least 20% of the investment through our internal resources. See “Regulatory Environment — Capital Fund System”. We will fund the remaining through bank borrowings and/or proceeds from the issuance of corporate bonds.

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As at the Latest Practicable Date, in addition to the BT project for Kunming Dianchi International Exhibition Centre and the waste incineration and power generation project in Yuxi, we had entered into concession agreements to undertake five tap water supply BOT projects and one tap water supply BOO project. In addition, we also entered into agreements with respect to three wastewater treatment, water supply and waste disposal BT projects (two of which are entrusted construction projects), with respect to which construction had not commenced. The investment amount of the Shawan Industrial Park Wastewater Treatment Plant Phase I is subject to the approval of the feasibility report by the local government. For the other eight projects, we expect to invest an aggregate amount of approximately RMB857.0 million. For details, see “Business — Planned Projects — Other Projects”. In accordance with relevant PRC laws and regulations, we are required to fund at least 20% of the investment through our internal resources. See “Regulatory Environment — Capital Fund System”. We will fund the remaining through bank borrowings and/or proceeds from the issuance of corporate bonds.

OUR BUSINESS SEGMENTS

We principally engage in the provision of wastewater treatment and water supply services. Our business covers the full spectrum of the water industry, which is divided into the following four segments:

- **Wastewater treatment** — design, construction and/or operation of wastewater treatment facilities under concession arrangements with local governments under BOT/TOT and BOO/TOO project models. For the years ended 31 December 2012, 2013 and 2014, approximately 56.3%, 47.0% and 34.9% of our revenue was derived from this segment, respectively.
- **Water supply** — design, construction and/or operation of tap water supply and raw water supply facilities under concession arrangements with local governments under BOT/TOT and BOO project models. For the years ended 31 December 2012, 2013 and 2014, approximately 26.6%, 25.5% and 19.6% of our revenue was derived from this segment, respectively.
- **Construction and equipment sales** — provision of construction and equipment sales services, which include construction of wastewater treatment and municipal waste disposal facilities for local governments under BT and EPC project models, as well as the sale and manufacturing of equipment for wastewater treatment, water supply and waste disposal facilities and relevant core technology engineering and system integration services. For the years ended 31 December 2012, 2013 and 2014, approximately 16.7%, 26.9% and 42.7% of our revenue was derived from this segment, respectively.
- **Others** — operation and maintenance of wastewater treatment, water supply and municipal waste disposal facilities owned by local governments or the facility owners under O&M project model. For the years ended 31 December 2012, 2013 and 2014, approximately 0.4%, 0.6% and 2.8% of our revenue was derived from this segment, respectively.

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CONCESSION PROJECTS

Our wastewater treatment segment and water supply segment together constitute our concession projects business. For the years ended 31 December 2012, 2013 and 2014, approximately 82.9%, 72.5% and 54.5% of our revenue was derived from our concession projects business, respectively. During the Track Record Period, the percentage of revenue contribution of our concession projects decreased because the revenue derived from our construction and equipment sales increased substantially. For details, see “Financial Information — Principal Income Statement Components — Revenue”. A concession project refers to an arrangement whereby a government grants to us a contract for the supply of a single kind of or a combination of water services to a designated area.

Project Models

For each of our concession projects, we adopt one of BOT, TOT, BOO or TOO project models according to the relevant concession agreements.

BOT

Under a BOT project model, we enter into a concession agreement with a local government regarding the investment, construction and operation of a proposed water facility. We construct and finance the construction of the water facility by a combination of bank borrowings and our internal resources. We are granted the right to operate the water facility during the concession period, which for most of our projects lasts 30 years, and are generally entitled to bill tariff according to the relevant concession agreement to either the users or the local governments during the concession period. After expiration of the concession period, we transfer the water facility back to the local government without compensation.

TOT

A TOT project model differs from a BOT project model because we do not construct the water facility. We acquire the concession right for the water facility that has already been constructed for an agreed consideration. Similar to a BOT project model, we are generally entitled to bill tariff according to the relevant concession agreement to either the users or the local governments during the concession period, which for most of our projects last 30 years. After expiration of the concession period, we transfer the water facility back to the local government without compensation.

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BOO

Under a BOO project model, we finance the investment, construction and operation of our own water facility. Unlike a BOT or TOT project model, we do not transfer the facility back to the local government after expiration of the concession period, which for most of our projects last 30 years. We are generally entitled to bill tariff according to the relevant concession agreement to either the users or the local governments during the concession period. We need to secure a new concession right to operate the water facility after the expiration of the existing concession period.

TOO

Under a TOO project model, we do not construct the water facility. We acquire the ownership of underlying assets of the water facility for an agreed consideration. We are generally entitled to bill tariff according to the relevant concession agreement to either the users or the local governments during the concession period and we do not transfer the facility back to the local governments after expiration of the concession period, which for most of our projects last 30 years. We need to secure a new concession right to operate the water facility after the expiration of the existing concession period.

The following table sets out the number of our wastewater treatment and water supply projects under concession arrangements (both in operation and under construction) as at 31 December 2012, 2013 and 2014:

	Wastewater Treatment								
	31 December 2012			31 December 2013			31 December 2014		
	In operation	Under construction	Sub-total	In operation	Under construction	Sub-total	In operation	Under construction	Sub-total
BOT	14	12	26	24	5	29	31	4	35
TOT	3	1	4	3	1	4	5	—	5
BOO	2	2	4	2	3	5	2	3	5
TOO	2 ⁽¹⁾	—	2	2 ⁽¹⁾	—	2	2 ⁽¹⁾	—	2
Total	21	15	36	31	9	40	40	7	47

	Tap Water and Raw Water Supply								
	31 December 2012			31 December 2013			31 December 2014		
	In operation	Under construction	Sub-total	In operation	Under construction	Sub-total	In operation	Under construction	Sub-total
BOT	—	—	—	—	1	1	—	1	1
TOT	1	—	1	1	—	1	2	—	2
BOO	8 ⁽²⁾	2	10	9 ⁽²⁾	4	13	9 ⁽²⁾	4	13
TOO	—	—	—	—	—	—	—	—	—
Total	9	2	11	10	5	15	11	5	16

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Notes:

- (1) This represents the Gejiu Wastewater Treatment Plant and Mengzi Wastewater Treatment Plant. The acquisition agreements of the two plants were signed in 2012 and the assets transfer of the two plants were completed in 2014.
- (2) This includes the Liuku Water Supply Plant I, which we obtained through the acquisition of Liuku Water. The acquisition agreement of Liuku Water was signed in 2012 and the equity transfer was completed in 2014.

The following table sets out the number of our concession projects (both in operation and under construction) under each project model by geographical breakdown as at the Latest Practicable Date:

	Wastewater treatment					Tap Water and Raw Water Supply				Total
	Yunnan	Xinjiang	Shandong	Jiangsu	Sub-total	Yunnan	Xinjiang	Shandong	Sub-total	
BOT	28	1	2	4	35	—	1	—	1	36
TOT	4	—	—	1	5	1	—	1	2	7
BOO	5	—	—	—	5	13	—	—	13	18
TOO	2	—	—	—	2	—	—	—	—	2
Total	<u>39</u>	<u>1</u>	<u>2</u>	<u>5</u>	<u>47</u>	<u>14</u>	<u>1</u>	<u>1</u>	<u>16</u>	<u>63</u>

The follow table sets out the average unit price of our wastewater treatment and water supply projects in operation by province and by project model during the Track Record Period.

Wastewater treatment

For the years ended 31 December												
2012				2013				2014				
(RMB)				(RMB)				(RMB)				
	Average unit price by project model			Average unit price by project model				Average unit price by project model				
	Yunnan	Xinjiang	Shandong	Jiangsu	Yunnan	Xinjiang		Shandong	Jiangsu	Yunnan	Xinjiang	
BOT	0.9	—	—	—	1.0	—	—	—	—	1.0	—	1.1
TOT	1.0	—	—	—	1.0	—	—	—	—	1.0	—	1.1
BOO	0.8	—	—	—	0.8	—	—	—	—	0.8	—	0.8
TOO	—	—	—	—	—	—	—	—	—	1.1	—	1.1
Average unit price by province	0.9	—	—	—	1.0	—	—	—	—	1.0	—	—

Water Supply

For the years ended 31 December															
	2012				2013				2014						
	(RMB)				(RMB)				(RMB)						
	Average unit price by project model				Average unit price by project model				Average unit price by project model						
	Yunnan	Xinjiang	Shandong	Jiangsu	Yunnan	Xinjiang	Shandong	Jiangsu	Yunnan	Xinjiang	Shandong ⁽²⁾	Jiangsu			
BOT	—	—	—	—	—	—	—	—	—	—	—	—	—		
TOT	2.0	—	—	2.0	2.0	—	—	2.0	2.0	—	3.7	—	2.9		
BOO	1.9	—	—	1.9	2.0	—	—	2.0	2.0	—	—	—	2.0		
TOO	—	—	—	—	—	—	—	—	—	—	—	—	—		
Average unit price by province	1.9	—	—	—	2.0	—	—	—	2.0	—	3.7	—	—		

Notes:

- (1) The unit prices of our wastewater treatment tariffs are determined according to our negotiations with the local governments after taking into consideration our production costs and the prevailing profit margins of similar wastewater treatment enterprises in the region. The average unit price of wastewater treatment tariffs in Jiangsu is higher than in Yunnan primarily because the production costs are relatively higher in Jiangsu.
- (2) The unit prices of our water supply tariffs are set in accordance with the prevailing unit price prescribed by the local governments according to the relevant laws and regulations. Because Shandong is more economically developed than Yunnan and the production costs for water supply in Shandong are relatively higher, the prevailing unit price prescribed by the local governments in Shandong is accordingly higher.

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For the years ended 31 December 2012, 2013 and 2014, 17, 27 and 38 of our wastewater treatment projects in operation had guaranteed minimum volume and guaranteed unit price arrangements, respectively. Of these projects, the actual wastewater treatment volumes of 17, 27 and 30 projects were below their guaranteed minimum volumes for the same years, respectively.

The following table sets out a comparison of our accounting treatment between BOT/TOT projects and BOO/TOO projects, in particular, regarding the recognition of our revenue and costs. Under both arrangements, there is no difference in the timing of cash flows.

	BOT/TOT projects	BOO/TOO projects	Differences in the recognition of revenue and costs
Revenue			
(i) Construction revenue	For BOT projects only. Construction revenue is calculated using percentage of completion method during the construction period, based on construction costs plus a profit margin.	No construction revenue is recognised.	Assuming all other things remain constant, the aggregated gross revenue to be recognised under BOT projects is higher than that of TOT and BOO/TOO projects as construction revenue is recognised during the construction period.
	No construction revenue is recognised for TOT projects.		
(ii) Operation revenue	Revenue is recognised when the related operation services are rendered.	Revenue is recognised when the related operation services are rendered.	No difference between BOT/TOT and BOO/TOO projects if there is no guaranteed minimum volume. When we receive a tariff payment during a concession period with respect to BOT projects where there is a guaranteed minimum volume, we apportion such payment into (i) a repayment of the receivables under service concession arrangements; (ii) finance income; and (iii) with the remainder being the operation revenue.
(iii) Finance income	If there is a guaranteed minimum volume, finance income is recognised using the effective interest method throughout the concession period based on outstanding receivables under service concession arrangements balance.	No such income is recognised.	Finance income will be recognised throughout the concession period for BOT/TOT projects, which have agreed upon guaranteed minimum volumes.

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	BOT/TOT projects	BOO/TOO projects	Differences in the recognition of revenue and costs
Costs			
(i) Cost related to construction	For our BOT projects only. Construction costs are recognised over the construction period. For consideration accounted for as intangible assets (as opposed to receivables under service concession arrangements), amortisation of intangible assets will be recognised on a straight line basis over the concession period.	For our BOO projects only. Construction costs are capitalised as property, plant and equipment upfront and depreciated using the straight-line method over the concession period.	Assuming all other things remain constant, the aggregated cost of sales to be recognised under BOT projects to be accounted for as intangible assets will be higher than BOO projects as the BOT projects recognise a profit margin in construction stage.
(ii) Cost related to operation	Costs are recognised on accrual basis.	Costs are recognised on accrual basis.	Under BOT projects, we have contractual obligations to maintain or restore infrastructures before transferring to the local governments. Expenditures associated with such obligations are recognised in the consolidated statements of comprehensive income.

The following table sets out the components of our revenue derived from our concession projects during the Track Record Period:

	For the years ended 31 December		
	2012	2013	2014
	(RMB'000)	(RMB'000)	(RMB'000)
Wastewater treatment			
Operation service - BOO/TOO	27,764	40,712	57,375
Operation service - BOT/TOT ⁽¹⁾	19,290	42,284	90,214
Construction service ⁽²⁾	149,315	200,381	184,476
Finance income ⁽³⁾	28,016	40,487	51,543
Sub-total	224,385	323,864	383,608
Water supply⁽⁴⁾			
Operation service - BOO/TOO	100,458	101,253	121,952
Operation service - BOT/TOT ⁽¹⁾	1,666	1,715	20,418
Construction service ⁽²⁾	3,988	72,692	69,945
Finance income ⁽³⁾	—	—	3,728
Sub-total	106,112	175,660	216,043
Total	<u>330,497</u>	<u>499,524</u>	<u>599,651</u>

Notes:

(1) Operation revenue is recognised during the operation phase of BOT/TOT projects.

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- (2) Construction revenue is recognised during the construction phase of BOT projects.
- (3) Under our BOT/TOT agreements, we account for the outstanding receivables throughout the concession period as receivables under service concession arrangements in our consolidated balance sheets when we have an unconditional right to receive tariff payments. Finance income is recognised as revenue in profit or loss using the effective interest method based on the accrued amount of the receivables under service concession arrangements. The effective interest rate we adopted during the Track Record Period ranged from 5.13% to 7.04% and was determined based on the valuation conducted by JLL with reference to the benchmark interest rate set by the PBOC, the interest rates of provincial government bonds in the PRC and the effective interest rates of comparable companies listed in the PRC and Hong Kong.
- (4) Includes raw water and tap water supply.

Wastewater Treatment

Our wastewater treatment facilities treat and discharge wastewater in compliance with the relevant national and local standards. Our customers are usually local governments in the PRC who pay us wastewater treatment fees mainly based on the volume of discharged wastewater and the unit price according to the relevant concession agreement. As at the Latest Practicable Date, we had 47 wastewater treatment projects, among which 35 were BOT projects, five were TOT projects, five were BOO projects and two were TOO projects. For the years ended 31 December 2012, 2013 and 2014, our wastewater treatment segment accounted for 56.3%, 47.0% and 34.9% of our revenue and 49.5%, 47.4% and 38.5% of our gross profit, respectively.

Our wastewater treatment facilities focus on the treatment of municipal wastewater. Municipal wastewater usually contains nitrogen, phosphorus and organic matter and is collected and carried through a municipal pipeline network constructed and owned by the local governments to wastewater treatment plants for treatment. Municipal wastewater mainly comprises residential wastewater. In some circumstances, municipal wastewater may also contain a small portion of wastewater discharged by commercial enterprises including industrial users. Both residential wastewater and industrial wastewater discharged by commercial enterprises are required to meet the Municipal Wastewater Discharge Standard before being discharged to a municipal pipeline network. Wastewater discharged by industrial enterprises typically go through a wastewater pre-treatment process which includes certain physical, chemical and biological treatment procedures to meet the Municipal Wastewater Discharge Standard. The wastewater is then transported to a municipal wastewater treatment plant, such as those operated by us. Our wastewater treatment facilities do not treat industrial wastewater. As at 31 December 2012, 2013 and 2014, the average utilisation rate of our wastewater treatment facilities was 42.3%, 46.1% and 64.3%, respectively.

Treatment process

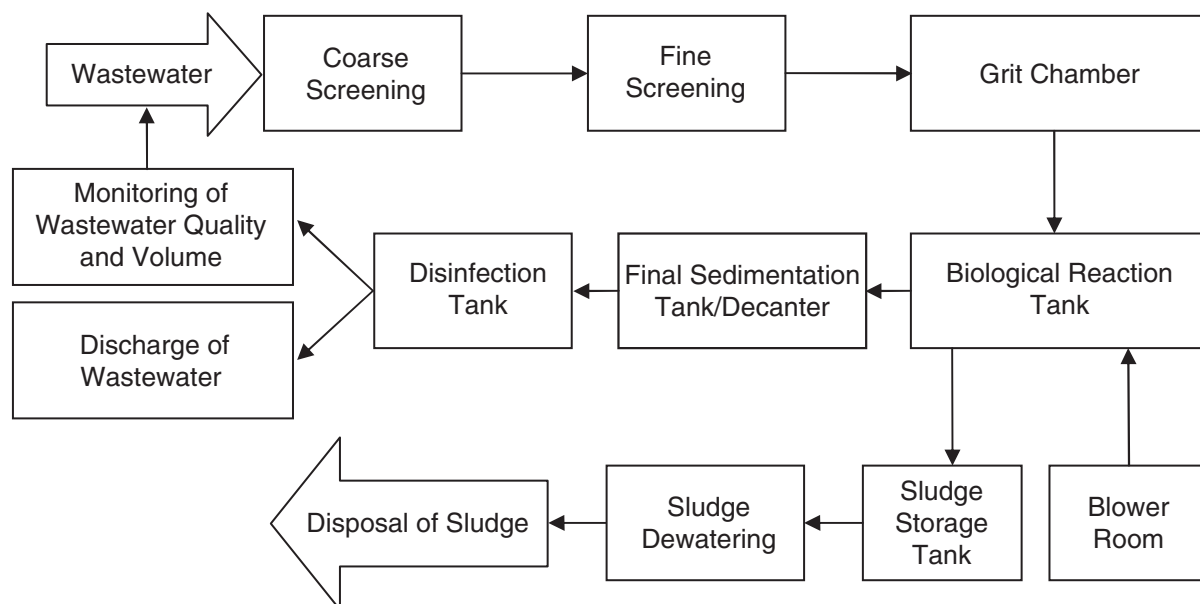
We treat the wastewater using physical, biological and chemical processes before it is discharged to the environment. We adopt various processes to treat municipal wastewater based upon (i) the composition of the wastewater; (ii) the standards to be achieved for the treated wastewater; (iii) the quantity of the wastewater to be treated; and (iv) construction conditions and the impact of construction on the surrounding environment. Different treatment techniques can be combined to maximise the effect of the treatment and to reduce treatment costs.

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Our wastewater treatment projects comprise 45 projects which are operated under our traditional treatment process and two projects which are operated under our advanced treatment process.

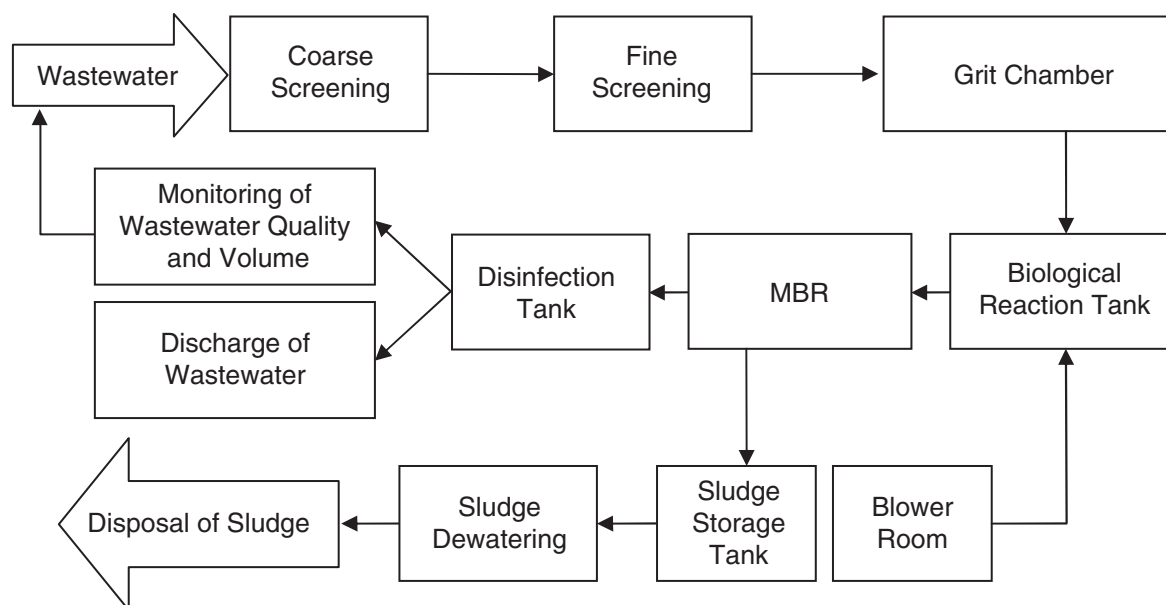
Traditional treatment process: Our traditional treatment process generally involves a series of physical, chemical and biological methodologies. The incoming wastewater is first transferred or pumped through the coarse screen and fine screen, which remove larger particles such as paper, hair, rags, sticks and other debris. Then, the wastewater passes through the grit chamber which removes fine suspended solids. After the grit chamber, the pre-treated wastewater enters into the biological reaction tank for biological treatment with a blower to add oxygen through an aeration process, and then enters into the final sedimentation tank for sludge-water separations. In case of the subsequent treatment process, i.e. SBR, CASS or CAST, a decanter is used to replace the final sedimentation tank. Finally, the biologically treated wastewater is disinfected before discharging to the environment.

The surplus sludge which is produced during the treatment is stored in the sludge storage tank for mechanical dewatering and disposal according to the National Wastewater Standard (GB18918-2002). The major technologies for wastewater treatment which we used during the Track Record Period were activated sludge technology and its derivative technologies. The activated sludge technology is a technology used for treating wastewater through creating an artificial aerobic and anaerobic environment in which bacteria and protozoa can be cultured to purify the wastewater. We utilise a computerised monitoring system to ensure our wastewater effluent meet the National Wastewater Standards (GB18918-2002) before discharging. Our typical traditional wastewater treatment process is illustrated below:



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Advanced treatment process: Our advanced treatment process largely follows the principle of biological treatment applied in our traditional treatment process, except that we utilise MBR technology. The micro-filtration membrane utilised can block particles as tiny as 0.1 to 0.3 μ m for the purpose of ensuring the high quality of wastewater effluent. Our typical advanced treatment process is illustrated below:



Our advanced treatment process offers a higher sludge load than that of our traditional treatment process, and as a result can provide higher treatment efficiency and require less land. Set out below is a comparison of wastewater effluent treated by the advanced treatment process (MBR technology) against the Class I Standard A (18918-2002) and Surface Water Quality Standard Class IV (GB 3838-2002):

No.	Key wastewater effluent index	Advanced treatment process (MBR technology)	Class I Standard A (GB 18918—2002)	Surface Water Quality Class IV (GB 3838—2002)
1	COD (mg/L)	15	≤ 50	≤ 30
2	BOD ₅ (mg/L)	3	≤ 10	≤ 6
3	SS (mg/L)	Not Detected	≤ 10	Not Detected
4	NH ₃ -N (mg/L)	1	≤ 5	≤ 1.5
5	TP (mg/L)	0.3	≤ 0.5	≤ 0.3
6	TN (mg/L)	8	≤ 15	≤ 1.5

As shown in the above table, in terms of the six key wastewater effluent indexes, which primarily determine the quality of wastewater effluent, the quality of the wastewater effluent treated by MBR technology far exceeds the indexes stipulated in the highest national standard required in wastewater treatment industry in the PRC, namely Class I Standard A (18918-2002). In addition, except for the TN index, the quality of the wastewater treated by MBR technology even exceeds the Surface Water Quality Standard Class IV (GB3838-2002),

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which is a surface water standard in the PRC. The wastewater effluent treated by MBR technology can be used as reclaimed wastewater for irrigation, recharging groundwater aquifers and meeting commercial and industrial needs.

Water Supply

Our water supply facilities either supply raw water or treat raw water and supply tap water in compliance with the relevant national and local standards. As at the Latest Practicable Date, we had 15 tap water supply projects, among which two were TOT projects and 13 were BOO project, and one raw water supply project under the BOT project model. For the years ended 31 December 2012, 2013 and 2014, our water supply segment accounted for 26.6%, 25.5% and 19.6% of our total revenue and 37.9%, 26.9% and 22.7% of our gross profit, respectively.

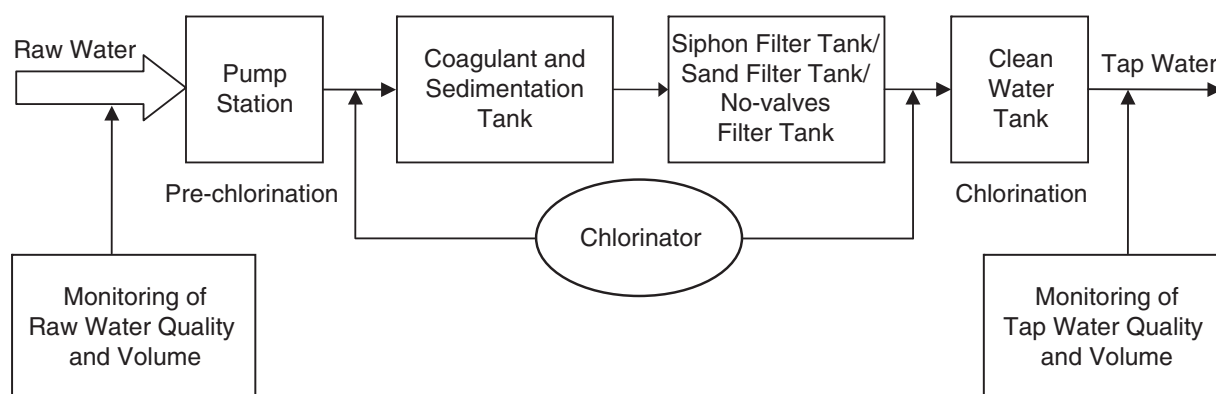
Tap water supply

We apply various technologies in our tap water supply facilities to purify and filter raw water available locally and provide safe tap water for our customers, which include residents, enterprises, industries, institutions and public authorities in the vicinities. As at 31 December 2012, 2013 and 2014, the average utilisation rate of our tap water supply facilities was 63.0%, 72.4% and 77.3%, respectively.

Treatment process

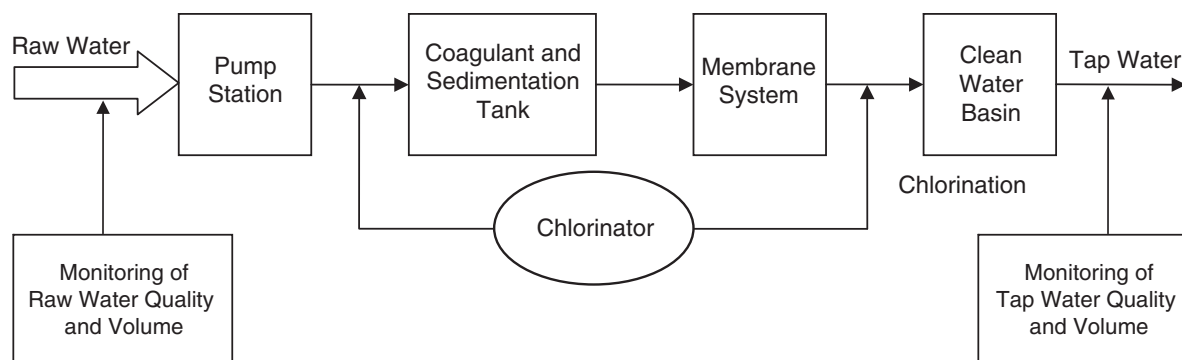
Our tap water supply projects comprise 13 projects which are operated under our conventional treatment process and two projects which are operated under our advanced treatment process.

Conventional treatment process: Most of our tap water supply facilities are operated with conventional technologies using a spectrum of physical and chemical methodologies. Firstly, the raw water is pumped up, if needed, and chlorine is added to enhance the flocculation effect. The water is then mixed with coagulant and flows into a sedimentation tank which removes the suspended solids from the water. Subsequently, the water enters a siphon filter tank or sand filter tank or no-valves filter tank, depending on the different treatment methods, and then is disinfected with chlorine. After disinfection, the water is stored in a clean water tank. The tap water is then distributed to the users. Our typical conventional water supply process is illustrated below:



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Advanced treatment process: Our advanced tap water supply process is similar to our conventional tap water supply process except that we use a membrane filtration system to purify and filter the raw water. The core component in the membrane filtration system is the CMF system, which utilises micro-filtration membranes or ultra-filtration membranes. Micro-filtration or ultra-filtration membranes can block particles as tiny as 0.1 to 0.3 μ m. Our typical advanced water supply process is illustrated below:



Set out below is a comparison of the supplied tap water treated by advanced treatment technology (CMF technology) against the National Drinking Water Standard (GB 5749-2006):

No.	Key supplied tap water index	Advanced treatment process (CMF technology)	National Drinking Water Standard (GB5749-2006)
1	Total coliform (CFU/100ml)	Not Detected	Not Detected
2	Thermotolerant coliform (CFU/100ml)	Not Detected	Not Detected
3	Escherichia coliform (CFU/100ml)	Not Detected	Not Detected
4	Giardia (unit/10L)	Not Detected	<1
5	Cryptosporidium (unit/10L)	Not Detected	<1
6	Total aerobic count (CFU/ml)	Not Detected	100
7	Turbidity (NTU)	<0.1	1
8	Total hardness (in terms of CaCO ₃)(mg/L)	140	≤ 450
9	Dissolved solids (mg/L)	180	≤ 1000

As shown in the above table, in terms of nine key supplied tap water indexes, which primarily determine the quality of supplied tap water, the supplied tap water treated by CMF technology far exceeds the indexes required by the national standard of the tap water supply industry in the PRC, namely National Drinking Water Standard (GB 5749-2006).

Raw water supply

Raw water is untreated water from natural sources such as rivers, lakes, reservoirs or underground aquifers which can be used for water consumption after purification and filtration. In our raw water supply project, we invest in, construct and operate a reservoir to collect and store raw water from various natural resources and supply the raw water to certain areas. As at the Latest Practicable Date, we had one BOT raw water supply project, which was under

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construction and was expected to be completed in December 2016. We entered into a concession agreement in respect of this raw water supply project in April 2013. During the Track Record Period, we recognised construction revenue in accordance with our accounting policy. For the years ended 31 December 2012, 2013 and 2014, the revenue derived from our raw water project was nil, RMB54.3 million and RMB70.9 million, respectively, representing nil, 7.9% and 6.4% of our revenue, respectively.

Project Management Process

We manage each of our concession projects by going through a number of processes. Depending on which project model is adopted, some of the processes may not be applicable. Our typical project management process includes the following:

Project selection

We have established a strict project selection system, under which every potential concession project goes through the following assessment stages before it is implemented: (i) our market and investment centre identifies a prospective project, gathers the relevant project information and reports to the technology & risk control centre; (ii) the technology & risk control centre then comprehensively assesses the project and prepares a due diligence report for discussion in the general manager's meeting, which is attended by our general manager and the managers of our four business centres (see "Business — Our Four Business Centres"); and (iii) if the investment amount of the project does not exceed RMB30.0 million and the accumulated investment amount in that year does not exceed 10% of our latest audited consolidated net assets, the project is subject to the approval of the general manager's meeting; otherwise, the project is subject to the approval of the Board.

Competitive negotiation or competitive tender

During the Track Record Period, except for the Datunhai Wastewater Treatment Project which we obtained through a competitive tender process, all of our concession projects were obtained through competitive negotiations. The Datunhai Wastewater Treatment Project accounted for 2.0% of our revenue and 0.7% of our profit before tax for the year ended 31 December 2014.

For competitive negotiations, the local government establishes a negotiation committee and invites at least three potential candidates to participate in one-on-one negotiations with the local government. The local government then selects a winner and enters into a concession agreement with such party. For competitive tenders, the local government publicly issues a tender notice to invite bidders to submit tender documents. The local government selects a winner to enter into a concession agreement based on the tender documents submitted.

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As advised by our PRC legal adviser, under the Tender Measures, local governments are required to award any public utility project (including wastewater treatment, water supply and waste incineration and power generation projects) via a competitive tender process. According to our PRC legal adviser, the Tender Measures impose competitive tender requirements on the local governments awarding the projects rather than on the awardee, and there is no administrative penalty stipulated under the Tender Measures. As the competitive tender is organised by the local governments, we are not in a position to rectify any non-compliance with the Tender Measures by the local governments or seek clarification from any government authorities with respect to the legal implications of such non-compliance. See “Risk Factors — Risks Relating to our Business — During the Track Record Period, we obtained most of our concession projects without undergoing any competitive tender process required by the Tender Measures and such concession projects may be deemed invalid as a result.”

Notwithstanding the above, our PRC legal adviser is of the view that (i) we did not violate the Tender Measures or other PRC laws and regulations by obtaining our concession projects through competitive negotiations; (ii) the relevant concession agreements entered into with the local government authorities after the competitive negotiations are legal and valid; and (iii) the likelihood of such concession agreements being deemed invalid is remote because:

- the Tender Measures do not empower any authority to impose administrative penalties or to invalidate or terminate our concession agreements that were signed without undergoing a competitive tender process;
- our concession agreements are in compliance with the Contract Law of the PRC (《中華人民共和國合同法》) (the “**PRC Contract Law**”) and such concession agreements remain effective, legal, valid, enforceable and binding on the respective parties according to the PRC Contract Law;
- the Government Procurement Law allows local governments to award any public utility project via competitive negotiation. As advised by our PRC legal adviser, according to the Legislation Law of the PRC, the Government Procurement Law, which is a “law”, is superior in terms of legal effect to the Tender Measures, which are considered as “ministerial regulations”. Accordingly, when the local governments award public utility projects via competitive negotiation in accordance with the Government Procurement Law, neither the local governments nor the awardees are in violation of the Tender Measures or other PRC laws and regulations and such competitive negotiations and the relevant concession agreements entered into with the local government authorities after the competitive negotiations are legal and valid; and

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- For all of our 63 concession projects, we have obtained confirmation letters from the government authorities higher than the local governments which granted these concession projects to us. The higher government authorities confirmed that both the concession agreements signed by the relevant local governments and us and the relevant concession rights we obtained through such concession agreements are legal and valid. As advised by our PRC legal adviser and based on the Tender Measures, the higher government authorities issuing the confirmation letters are the competent authorities and are also the authorities which oversee the relevant local governments that entered into the concession agreements with us. See “Regulatory Environment - Concession in Municipal Public Utilities Projects - Government Supervision”.

Concession and asset purchase agreements negotiation and signing

After a successful negotiation, we sign a concession agreement with the local government to obtain the concession right to operate the water facilities. For TOO project model, we sign an asset purchase agreement to purchase the water facilities from the local government. According to the asset purchase agreement, we acquire the underlying assets of the water facilities for a consideration to be paid by instalments. After signing the asset purchase agreement, we sign a concession agreement with the local government to obtain the concession right to operate the water facilities for a concession period.

Design planning and obtaining government approvals (BOT and BOO project models only)

Before we commence construction, certain approvals and permits for the construction of the concession projects are required to be obtained from the relevant authorities. The local governments usually assist us in obtaining the approvals and permits. See “Business — Licenses and Permits” for details of the certificates and permits that we need in order to commence construction of wastewater treatment or water supply facilities.

After obtaining the necessary approvals and permits and following our completion of comprehensive studies on the project, we commission a qualified design institute to draft a design proposal and work closely with them throughout the design planning process, which typically takes approximately three months.

As at the Latest Practicable Date, we failed to obtain construction land use planning permits, construction planning permits and/or construction work commencement permits before the commencement of construction of seven of our major BOO/BOT projects under construction. See “Business — Non-compliance”.

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Procurement and construction (BOT and BOO project models only)

For our BOT and BOO projects, we are responsible for the construction of the water facilities. We hire qualified design institutes and independent contractors for the design and construction of water facilities and the installation, testing and commissioning of the necessary equipment and systems. Our project management department is responsible for supervising the construction phase of our BOT or BOO projects including our contractors' construction works. The principal building materials used for the construction of our water facilities are usually provided or procured by the contractors themselves. The costs of these materials are included in our contractors' project proposals and as a result, they bear the risk of fluctuation of the costs of such raw materials. The contractors are also responsible for selecting and procuring the equipment to be installed during the construction phase which usually lasts six to 36 months. See "Business — Suppliers".

Testing, inspection and trial operation (BOT and BOO project models only)

After our water facilities are constructed, we test and commission the facilities to ensure that they operate in accordance with the terms of our concession agreements. Once we complete the testing and commissioning process, we give notice to the relevant government authority to inspect the water facilities. After passing the inspection by the relevant authority, we are required to apply to the relevant local government for commencing trial operation of the water facilities and to obtain its approval.

Operation and maintenance during concession period

Our operation management department is responsible for the overall supervision of the operation and maintenance of our water facilities. We are responsible for all operation, repair and maintenance costs during the operation phase. Our wastewater effluent is required to meet the Class I Standard B or Class I Standard A (GB18918-2002). Our supplied tap water is required to meet the National Drinking Water Standard (GB5749-2006).

The quality of incoming wastewater or raw water and wastewater effluent or supplied tap water is specified in the relevant concession agreements. The quality of the incoming wastewater and wastewater effluent of our wastewater treatment facilities are subject to 24-hour monitoring by the relevant environmental protection authority. The quality of incoming raw water and supplied tap water of our tap water facilities are tested once and twice a month, respectively, by the local quarantine authority. We also maintain our own monitoring systems according to our operation and maintenance manual to ensure that the quality of our incoming wastewater or raw water meets contractual requirements and that the quality of our wastewater effluent or supplied tap water meets both regulatory and contractual standards.

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Maintenance is carried out both regularly, usually every one to three months and on an ad-hoc basis. Maintenance generally does not require the suspension of operation of our facilities. At the end of each year, our operation and maintenance team formulates a maintenance plan for the following year and we will conduct maintenance work accordingly. Our maintenance plan ensures that all equipment facilities are maintained at least once per year. In addition to regular maintenance, our maintenance team will conduct ad-hoc maintenance to ensure that our equipment and facilities operate properly.

Transfer to the government (BOT and TOT project models only)

We are required to transfer the facilities to the local governments following the conclusion of the concession period. After the completion of the transfer, we have no further operation or maintenance responsibilities. However, in some cases, we provide a warranty period of six to 12 months to the local government. During the warranty period, we are responsible for the maintenance of the facilities. As none of the concession periods of our concession projects had expired as at the Latest Practicable Date, our concession projects were not under such warranty period.

Key Terms of Concession Agreements

Our concession agreements stipulate the terms upon which the concession is granted and other rights and obligations of each party with regard to the construction and/or operation of a water facility. Below is a discussion of the key contract terms for our typical agreements with the government for our concession projects. Depending on which project model is adopted, some of terms may not be applicable.

Construction (BOT and BOO project models only)

Our primary responsibilities during the construction phase include fine-tuning the construction drawings, undertaking civil engineering works, procuring and installing equipment and conducting trial operation. The local governments are generally responsible for preparing feasibility studies, furnishing preliminary designs and construction drawings, providing basic infrastructure support and obtaining the relevant construction permits. We are not obligated to complete our construction according to the pre-determined designed capacity until the basic infrastructure is completed by the local governments.

Furthermore, most of our concession projects provide for a construction period of six to 36 months from the date we receive construction permits or a later date determined by both parties. During the Track Record Period and up to the Latest Practicable Date, we were able to complete construction in accordance with relevant concession agreements and had not experienced any major delays or disputes with our customers with respect to the progress of our construction.

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Testing and acceptance (BOT and BOO project models only)

We test the facilities to ensure that they operate in accordance with the terms of the concession agreement. Once we complete the testing process, we notify the relevant government to inspect and accept the water facilities. After passing the inspection and acceptance process, we apply to the local governments for the commencement of trial operation.

Trial operation (BOT and BOO project models only)

The trial operation process is conducted jointly by us and the local governments. Trial operation typically lasts a period of three to six months for our wastewater treatment projects and one month to six months for water supply projects.

Initial transfer (TOT and TOO project models only)

The local governments transfer the facilities to us on the date specified in the concession agreement. In some cases, the local government provides a warranty period of six to 12 months for the quality of the water facilities after the initial transfer date. After the expiry of the warranty period, all risks associated with the facilities are borne by us.

Assets acquisition (TOO project models only)

In our TOO projects, we acquire all the assets and land use rights for the facilities from the local governments. The local governments usually undertake, among other things, that (i) there are no pledges or other encumbrances imposed on these assets when transferred to us; (ii) the plants have passed the completion acceptance and environmental protection acceptance; (iii) the wastewater effluent or supplied tap water has met the required standards for 14 days continuously; and (iv) the construction of the pipeline network connected to the facility has been completed. We own, control and operate the transferred assets and take all risks associated with the assets on the first working day after all the transfer preconditions are satisfied.

Purchase price and payment (TOT and TOO project models only)

In our TOO projects, we are required to pay certain consideration to acquire the underlying assets of the water facilities. The purchase price for the assets of the water facilities is typically determined based on an assets appraisal report issued by a certified valuer jointly appointed by both parties. For our TOT projects, we are required to pay certain consideration, which is determined based on an asset appraisal report issued by an independent valuer, to obtain the concession rights for the water facilities. We usually pay the purchase price for the assets of our TOO projects by instalments over a period of 24 months and the concession rights for our TOT projects by instalments according to the specific terms of the relevant agreements.

Water quality

The concession agreements usually set out the quality of the incoming wastewater or raw water to be treated by our water facilities. For our wastewater treatment projects, we reserve the right to increase our wastewater treatment tariff if the pollutants in the incoming wastewater we receive exceed pre-determined levels. If we invest and improve the treatment process for the more polluted incoming wastewater, the local governments are required to reimburse our capital expenditure.

For our tap water supply projects, the incoming raw water is required to meet the Surface Water Quality Standard Class III (GB3838-2002) or above in accordance with the relevant concession agreements. The local governments are responsible for the quality of the incoming raw water. We are required to ensure that the quality of the purified tap water meets the National Drinking Water Standard (GB5749-2006). We conduct, or engage a qualified third party to conduct, a comprehensive inspection on the incoming raw water each month. If we suffer any losses or incur any extra expenditure due to the defective quality of the incoming raw water, we reserve the right to ask for reimbursement or to increase the tap water unit price.

For our raw water supply projects, we are required to supply the raw water stored in our reservoir. The supplied water is for industrial and irrigation use and not for human consumption.

We are able to treat wastewater and raw water to meet relevant regulatory standards. During the Track Record Period and up to the Latest Practicable Date, we had not experienced any incident of excessive pollutants in the incoming wastewater or raw water and we had not been subject to any administrative penalties or disputes with our customers due to excessive pollutants in our wastewater effluent or tap water supplied to customers.

Tariff and settlements

We generally issue monthly or quarterly bills to either the local governments or the end users once the commercial operation of the water facility commences. Except for our tap water supply projects, our concession agreements usually stipulate when our customers need to settle the bills. For our tap water supply projects, we stipulate our settlement period in our bills because the end users who are our customers are not parties to our concession agreements. Our customers are usually required to settle our bills for wastewater treatment tariffs and tap water tariffs within one month according to the concession agreements or the bills.

Wastewater treatment

For our wastewater treatment, the tariff is usually calculated according to the volume of wastewater treated multiplied by the unit price set by the parties taking into account the prevailing price and the investment, construction and operation costs. In general, the unit price for wastewater treatment services can be adjusted every three years according to the relevant concession agreement. The local governments are required to complete the adjustment process within a specified period on receipt of our application. For our BOT, TOT and TOO

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wastewater treatment projects, the concession agreements usually provide for a guaranteed minimum volume of wastewater treated and a guaranteed minimum unit price. The concession agreements for our BOO wastewater treatment projects do not stipulate a guaranteed minimum volume.

When the actual volume of treated wastewater falls below the guaranteed minimum, we are entitled to receive payment based on such guaranteed minimum volume from the local governments. When the actual volume of treated wastewater is above the guaranteed minimum, we receive payments from the local governments calculated according to the actual volume. We are entitled to receive payment based on the guaranteed minimum unit price or the amount as adjusted according to the concession agreements of our wastewater treatment projects, and such unit price will not be affected by the unit price of wastewater treatment tariff the local governments charge to the residents or enterprises. For details of the guaranteed minimum volume and guaranteed minimum unit price of our wastewater treatment projects, see “Business — Concession Projects — Details of our Concession Projects — Wastewater Treatment”.

For our BOT/TOT projects, we usually bill the local governments monthly or quarterly. For our TOO projects, we usually bill the local governments monthly. Although we usually bill the local governments monthly or quarterly and the local governments are required to settle our bills within one month, the local governments usually settle our bills half-yearly for our BOT and TOO projects or yearly for our TOT projects due to their stringent internal approval procedures. See “Financial Information — Liquidity and Capital Resources — Trade and other receivables”.

Our BOO projects are either operated by Dali Water, Jinghong Water or Mengla Water. These companies operate both wastewater treatment and tap water supply projects under the same entity. According to the concession agreement of Dali Water, the local government is responsible for the payment of wastewater treatment tariffs which are calculated based on the actual volume of wastewater treated by Dali Water. Dali Water issues monthly bills to the local government to charge wastewater treatment tariffs, which the local government usually settles monthly. On the other hand, according to the concession agreements of Jinghong Water and Mengla Water, end users are responsible for the payment of wastewater treatment tariffs which are calculated in accordance with the volume of tap water consumed. Jinghong Water bills end users both wastewater treatment and water supply tariffs together on a monthly basis and the end users usually settle the bills monthly. As at the Latest Practicable Date, the BOO project operated by Mengla Water was not in commercial operation and therefore Mengla Water had not billed end users.

When a guaranteed minimum volume is agreed, we check the volumes of wastewater treated during the period before we issue our bills. If the actual volume exceeds the guaranteed minimum, we issue bills based on the actual volume. Conversely, if the actual volume is equal to or below the guaranteed minimum, we issue bills based on the guaranteed volume. The local governments may verify the actual volume based on the water meters

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installed in our wastewater treatment facilities when the actual volume exceeds the guaranteed minimum. During the Track Record Period and as at the Latest Practicable Date, we had not experienced any material disputes with the local governments in relation to the actual volume of wastewater treated.

Tap water supply

For our tap water supply, the tariff is calculated according to the volume of tap water consumed multiplied by the unit price set in accordance with the relevant PRC laws and regulations regarding tap water tariffs. Our concession agreements for tap water supply projects do not stipulate a guaranteed minimum volume or a guaranteed minimum unit price. For details of the actual volume and actual unit price of our tap water supply projects, see “Business — Concession Projects — Details of our Concession Projects — Tap Water Supply”. Our concession agreements set out the principles and conditions to increase the price, such as a change of lending interest rates, force majeure events, changes to laws, an increase in electricity charges, an increase in labour costs and inflation. We are entitled to apply to the relevant government authority for an increase in unit price in accordance with the concession agreement. Upon receiving our application for unit price increases, the relevant pricing authority discusses and approves the application in accordance with the contract terms and relevant PRC laws and regulations. See “Regulatory Environment — Concession in Municipal Public Utilities Projects — Pricing”. During the Track Record Period, we undertook tap water supply projects under the TOT and BOO project models. According to the concession agreements, we are entitled to bill end users for tap water tariffs on a monthly basis. End users usually settle our bills monthly for our BOO projects and quarterly for our TOT projects.

Raw water supply

For our raw water supply, the tariff is calculated according to the volume of the raw water supplied multiplied by the unit price according to the concession agreement. The concession agreement sets out the guaranteed minimum volume in the first three years of operation and the guaranteed minimum unit price during the concession period. For details of the guaranteed minimum volume and guaranteed minimum unit price of our raw water supply project, see “Business — Concession Projects — Details of our Concession Projects — Raw Water Supply”. When the actual volume of supplied raw water falls below the guaranteed minimum, we are entitled to receive payment based on such minimum volume. When the actual volume of supplied raw water is above the guaranteed minimum, we receive payments calculated according to the actual volume. We are entitled to receive payment based on the guaranteed minimum unit price or the amount as adjusted according to the concession agreements, and such unit price will not be affected by the unit price of raw water tariff the local governments charge to the tap water supply facilities. During the Track Record Period, we undertook one raw water supply project under the BOT project model. According to the concession agreement, we are entitled to bill the local government for raw water tariffs on a monthly basis and the local government is required to settle our bills monthly.

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Concession right

The concession period is typically 30 years. We need to obtain new concession rights from the local governments in order to continuously operate our concession projects upon expiration of their respective concession periods.

Land use right and building ownership

For our BOO/TOO projects, we are required to obtain land use right certificate for each parcel of land occupied by us from the local governments by way of allocation or transfer in order to lawfully construct and/or operate our wastewater treatment and water supply facilities and then obtain building ownership certificates. We obtain allocated land (劃撥地) with or without compensation depending on the provisions of the relevant concession agreements. For land transferred to us (出讓地), we need to pay a land transfer premium according to the relevant concession agreements. We hold the land use rights and own the buildings and do not transfer back the land use rights or buildings to the local governments upon expiration of the concession periods. During the Track Record Period, we did not obtain land use rights certificates and building ownership certificates in respect of certain properties underlying our BOO/TOO concession projects. See “Business — Properties — BOO/TOO projects”.

Pursuant to the relevant concession agreements for our BOT/TOT projects, (i) the local governments or their designees are obliged to provide all relevant parcels of land and ancillary buildings for use by us and are required to obtain all land use right certificates, including those for the 24 parcels of land underlying our BOT/TOT projects without land use right certificates; (ii) we are not obliged to obtain the relevant land use right certificates and building ownership certificates; and (iii) the relevant parcels of land and buildings must be transferred back to the local governments upon expiration of the relevant concession period.

Our PRC legal adviser has advised that: (i) despite the fact that the local governments or their designees have contractual obligations to obtain the land use right certificates for the 24 parcels of land underlying our BOT/TOT projects without land use right certificates, there are no relevant regulatory requirements under PRC laws or regulations which require us or the local governments or their designees to obtain the land use right certificates/building ownership certificates with respect to our BOT/TOT projects; (ii) according to the relevant PRC laws, the local governments at the county level or their designees are the legal administrative authorities for the relevant land/buildings underlying our BOT/TOT projects and can legally grant us the right to occupy and use such land/buildings, even if they are not in possession of the land use right certificates/building ownership certificates for such land/buildings; (iii) the local governments or their designees have authorised us to occupy and use such land/buildings with respect to our BOT/TOT projects pursuant to the relevant concession agreements; (iv) based on the relevant government confirmations we obtained from the competent government authorities, we are entitled to legally and validly occupy the 24 parcels of land underlying our BOT/TOT projects without land use right certificates and their ancillary

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buildings during the concession periods; (v) the risk of the government confirmations being challenged or revoked by higher-level government authorities is remote; and (vi) no land use right certificates for the 24 parcels of land underlying our BOT/TOT projects have been issued to or are being applied for by any party.

In addition, our PRC legal adviser has advised that any failure by the local governments or their designees to obtain such land use right certificates or building ownership certificates does not constitute non-compliance with respect to our operations and will not materially and adversely affect our business operations. Furthermore, there are no legal consequences or risks to us resulting from the failure of the local government or their designees to obtain such land use right certificates or building ownership certificates. See “Business — Properties — Properties Occupied by Us Pursuant to Concession Agreements — BOT/TOT projects”.

Potential expansion of facility (BOT and BOO project models only)

Some of our wastewater treatment and water supply projects consist of two phases. We usually construct and operate the first phase of our water facilities in the beginning and undertake to construct and operate the second phase when the wastewater treatment or water supply demands exceed the capacity of the first phase. We do not have to obtain new concession rights or land use rights for the second phase of our water facilities as we obtain the concession rights and land use rights for both phases when we enter into the relevant concession agreements.

Transfer (BOT and TOT project models only)

We are required to transfer the water facilities to the local governments without compensation from the local governments upon expiration of a concession period. We are typically required to carry out comprehensive repair work before expiry of a concession period to ensure that the water facilities operate properly. We have the right to transfer the water facilities to the local governments before a concession period expires when certain events occur, such as a default by the local governments in scheduled payments. In such cases, we are entitled to compensation calculated according to the terms of the concession agreements. When the transfer is completed, we have no further maintenance responsibilities. However, in some cases, we provide a warranty period of six to 12 months to the local governments. During the warranty period, we are responsible for the maintenance of the facilities at our costs. As none of the concession periods of our concession projects had expired as at the Latest Practicable Date, our concession projects were not under such warranty period.

Termination

A concession agreement can be terminated by either party due to specified events of default or by force majeure events. Events of default by the local governments include, but are not limited to, their failure to make scheduled payments on time or the granting of the concession rights to a third party in breach of our exclusivity rights. Events of default by us include, but are not limited to, failing to commence the construction within a certain period

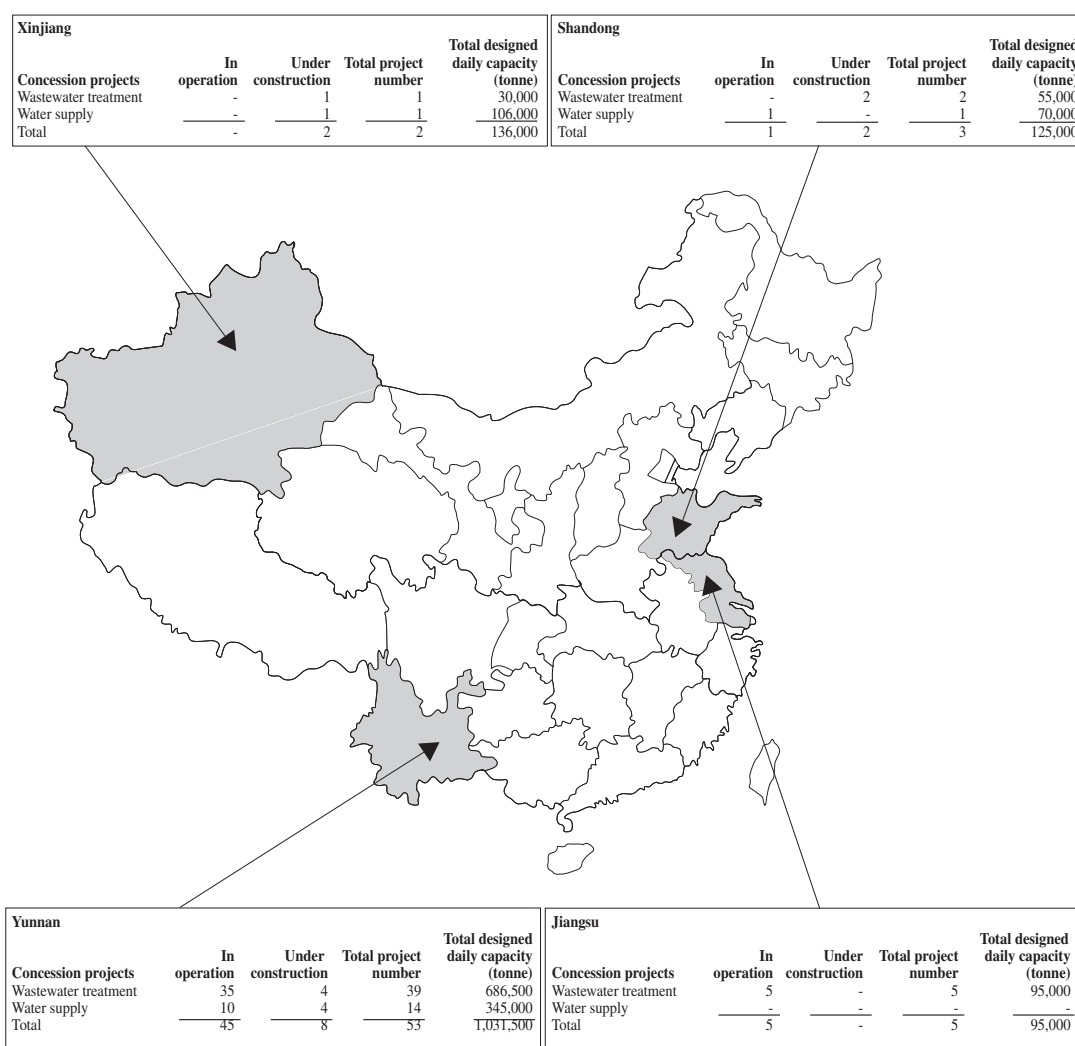
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after all construction conditions have been satisfied or any serious construction quality or safety accidents as a result of our mismanagement. Where the agreement is terminated by one party due to the other party's default, the terminating party is entitled to damages or compensation. During the Track Record Period and up to the Latest Practicable Date, none of our concession projects was terminated before the end of the concession period.

Details of our Concession Projects

As at the Latest Practicable Date, we had 63 concession projects with a total designed daily capacity of 1.4 million tonnes, among which, 47 were wastewater treatment projects with a total designed daily capacity of 0.9 million tonnes and 15 were tap water supply projects with a total designed daily capacity of 0.4 million tonnes. We also had one raw water supply project with a total designed daily capacity of 0.1 million tonnes.

The map below illustrates the geographic locations of our concession projects as at the Latest Practicable Date.



Wastewater treatment

BOT

As at the Latest Practicable Date, we had a total of 35 BOT wastewater treatment projects, amongst which 31 were in operation and four were under construction. The details of our BOT projects are set out in the table below:

No.	Project	Project Company	Date of Signing		Commencement		Guaranteed Minimum Treatment Volume	Guaranteed Minimum Wastewater Unit Price	Actual Wastewater Unit Price	Actual/Expected Commencement Date of Commercial Operation	Water Quality Required	Investment Amount ⁽⁵⁾	Investment Payback Period ⁽⁶⁾	Consolidation with our Group's Financial Statements
			Concession Agreement	Concession Period	Concession Period	Date of Concession Period								
Yunnan														
In Operation														
1	Cangyuan Wastewater Treatment Plant ⁽¹⁾	Cangyuan Water	May 2010	30	January 2013	4,800 for the first year and shall increase by 800 each year until it reaches 8,000	1.0 for 2013 and shall increase by 16% every 3 years	1.0	January 2013	Class I Standard B	15.3	12	January 2011	
2	Dayao Wastewater Treatment Plant ⁽¹⁾	Dayao Water	April 2011	30	June 2013	6,000 from 2012 to May 2013; 7,000 from June 2013; 7,000 for 2014; 10,000 from 2015	1.1 for 2013 and shall increase by 15% every 5 years	1.1	June 2013	Class I Standard B	20.2	12	January 2011	
3	Gengma Wastewater Treatment Plant ⁽¹⁾	Gengma Water	May 2010	30	September 2012	6,000 for the first year and shall increase by 1,000 each year until it reaches 10,000	0.8 for 2012, 1.0 for 2013 and shall increase by 16% every 3 years	1.0	September 2012	Class I Standard B	22.4	11	January 2011	
4	Heqing Wastewater Treatment Plant ⁽¹⁾	Heqing Water	December 2009	30	December 2013	5,600 for 2013; 6,400 for 2014; 7,200 for 2015; 8,000 from 2016	1.0 for 2013 and 2014 and shall increase by 20% every 3 years	1.0	December 2013	Class I Standard B	12.0	12	January 2011	
5	Jianshui Wastewater Treatment Plant ⁽¹⁾	Jianshui Water	August 2010	30	May 2012	15,000 for the first year and shall increase by 10% each year until it reaches 25,000	0.8 for 2012, subject to adjustment	0.8	May 2012	Class I Standard B	57.1	12	January 2011	

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No.	Project	Project Company	Date of Signing Concession Agreement	Commencement			Guaranteed Minimum Wastewater Unit Price	Actual Wastewater Unit Price	Actual/Expected Commencement Date of Commercial Operation	Water Quality Required	Investment Amount ⁽⁵⁾	Investment Payback Period ⁽⁶⁾	Commencement Date of Consolidation with our Group's Financial Statements
				Concession Period	Date of Concession Period	Volume							
				(years)		(tonnes/day)	(RMB/tonne)	(RMB/tonne)			(RMB million)	(years)	
6	Jinggu Wastewater Treatment Plant ⁽¹⁾	Jinggu Water	December 2009	30	January 2012	6,500 for the first year and shall increase by 1,000 each year until it reaches 10,000	1.0 for 2012 and shall increase by 14% every 3 years	1.0	January 2012	Class I Standard B	20.0	11	January 2011
7	Jinning Wastewater Treatment Plant (Advanced Treatment) ⁽⁴⁾	Jinning Water	August 2011	18	April 2013	12,000	0.7 for 2013, subject to adjustment every 3 years	0.7	April 2013	Class I Standard B	7.0	12	September 2013
8	Lancang Wastewater Treatment Plant ⁽¹⁾	Lancang Water	August 2011	30	December 2012	6,000	1.1 for 2012, subject to adjustment every 3 years	1.1	December 2012	Class I Standard B	25.5	10	January 2011
9	Lanping Wastewater Treatment Plant ⁽¹⁾	Lanping Water	January 2010	23	March 2013	6,000 for the first year and shall increase by 10% each year until it reaches 10,000	1 for 2012 and shall increase by RMB0.2/tonne every 3 years until it reaches 1.6	1.0	March 2013	Class I Standard B	10.0	12	January 2011
10	Lianghe Wastewater Treatment Plant ⁽¹⁾	Lianghe Water	July 2010	30	June 2013	3,500 for the first year and shall increase by 500 each year until it reaches 5,000	1.0 for 2013 and shall increase by 20% every 3 years until it reaches 3	1.0	June 2013	Class I Standard B	13.4	11	June 2011
11	Ludian Wastewater Treatment Plant ⁽¹⁾	Ludian Water	September 2009	30	May 2011	12,000 for the first year and shall increase by 10% each year until it reaches 15,000	0.8 for 2011, subject to adjustment every 3 years	0.8	May 2011	Class I Standard B	22.7	10	January 2011
12	Lufeng Wastewater Treatment Plant ⁽¹⁾	Lufeng Water	December 2011	30	January 2012	10,000 for the first year and shall increase by 2,000 each year until it reaches 20,000	1.0 for 2012; 1.09 for 2013 and 2014. The price shall increase by at least 10% every 3 years	1.1	January 2012	Class I Standard B	36.0	8	January 2011
13	Lushui Liuku Wastewater Treatment Plant ⁽¹⁾	Lushui Water	August 2010	30	January 2014	9,100 for 2012 and shall increase by 10% each year until it reaches 13,000	1.0 for 2012 and shall increase by 20% every 3 years for 3 times in total	1.0	January 2014	Class I Standard B	16.7	10	January 2011

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No.	Project	Project Company	Date of Signing Concession Agreement	Commencement		Guaranteed Minimum Wastewater Unit Price	Actual Wastewater Unit Price	Actual/Expected Commencement Date of Commercial Operation	Water Quality Required	Investment Amount ⁽⁵⁾	Investment Payback Period ⁽⁶⁾	Commencement Date of Consolidation with our Group's Financial Statements
				Concession Period	Date of Concession Period	(tonnes/day)	(RMB/tonne)			(RMB million)	(years)	
14	Luxi Wastewater Treatment Plant ⁽¹⁾	Luxi Water	October 2009	30	July 2011	12,000 for the first year and shall increase by 2,000 each year until it reaches 20,000	0.8 for 2011, subject to adjustment every 2 years	July 2011	Class I Standard B	18.2	10	January 2011
15	Menghai Wastewater Treatment Plant ⁽¹⁾	Menghai Water	October 2011	30	February 2013	6,000 for the first year and shall increase by 1,000 each year until it reaches 10,000	0.8 for 2012; 1 for 2013 and shall increase by 16% every 3 years	February 2013	Class I Standard B	22.2	13	January 2011
16	Menglian Wastewater Treatment Plant ⁽¹⁾	Menglian Water	December 2010	30	December 2012	4,500 for 2012-2015 and shall increase by 1,500 each year until it reaches 7,500	1.0 for 2012 and shall increase by 16% every 3 years	December 2012	Class I Standard B	20.1	12	May 2011
17	Mojiang Wastewater Treatment Plant ⁽¹⁾	Mojiang Water	December 2009	30	April 2012	6,000 for the first year and shall increase by 500 each year until it reaches 10,000	1.0 for 2012 and shall increase by 16% every 3 years	April 2012	Class I Standard B	25.1	10	January 2011
18	Nanlian Wastewater Treatment Plant ⁽¹⁾	Nanlian Water	June 2013	30	January 2011	3,500 for 2011 and shall increase by 10% each year until it reaches 5,000	1.0 for 2012	January 2011	Class I Standard B	13.9	7	January 2011
19	Ninger Wastewater Treatment Plant ⁽¹⁾	Ninger Water	March 2011	30	May 2012	6,000 for the first year and shall increase by 1,000 each year until it reaches 10,000	1.2 for 2012 and shall increase by 10% every 3 years	May 2012	Class I Standard B	21.7	13	January 2011
20	Shuangjiang Wastewater Treatment Plant ⁽¹⁾	Shuangjiang Water	December 2009	30	September 2013	6,000 for the first year and shall increase by 1,000 each year until it reaches 10,000	0.8 for 2011 and 2012; 1 for 2013 and shall increase by 16% every 3 years	September 2013	Class I Standard B	22.3	12	January 2011
21	Tengchong Wastewater Treatment Plant ⁽¹⁾	Tengchong Water	August 2009	30	September 2013	15,000 for 2013 and shall increase by 10% each year until it reaches 25,000	0.8 for 2013, subject to adjustment every 3 years	September 2013	Class I Standard B	42.0	10	January 2011

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No.	Project	Project Company	Date of Signing		Commencement		Guaranteed Minimum Wastewater Unit Price	Actual Wastewater Unit Price	Actual/Expected Commencement		Investment Amount ⁽⁵⁾	Investment Payback Period ⁽⁶⁾	Commencement Date of Consolidation with our Group's Financial Statements
			Concession Agreement	Concession Period	Date of Concession Period	Guaranteed Volume			Date of Commercial Operation	Water Quality Required			
				(years)		(tonnes/day)	(RMB/tonne)	(RMB/tonne)			(RMB million)	(years)	
22	Weixin Wastewater Treatment Plant ⁽¹⁾	Weixin Water	March 2010	30	March 2011	7,000 for the first year and shall increase by 1,000 each year until it reaches 10,000	1.1 for 2014, subject to adjustment every 3 years	1.1	March 2011	Class I Standard B	15.3	9	May 2011
23	Yaolan Wastewater Treatment Plant ⁽¹⁾	Yaolan Water	December 2009	30	January 2014	4,800 for the first year and shall increase by 800 each year until it reaches 8,000	1.1 for 2014 and shall increase by at least 10% every 3 years	1.1	January 2014	Class I Standard B	18.0	10	January 2011
24	Yingjiang Wastewater Treatment Plant ⁽¹⁾	Yingjiang Water	July 2010	30	August 2013	10,500 for the first year and shall increase by 1,500 each year until it reaches 15,000	1.0 for 2012. The volume shall increase by 20% every 3 years until it reaches 3	1.0	August 2013	Class I Standard B	28.0	12	May 2011
25	Yongren Wastewater Treatment Plant ⁽¹⁾	Yongren Water	June 2014	30	July 2011	3,000 for the first year and shall increase by 500 each year until it reaches 5,000	1.1 for 2011 and shall increase by at least 10% every 3 years	1.2	July 2011	Class I Standard B	10.7	15	January 2011
26	Yunlong Wastewater Treatment Plant ⁽¹⁾	Yunlong Water	November 2009	30	January 2011	—	0.8 for 2011 and at least 1.0 before July 2013, subject to adjustment every 3 years	0.8	November 2013	Class I Standard B	15.0	14	January 2011
27	Zhenxiong Wastewater Treatment Plant ⁽¹⁾	Zhenxiong Water	November 2010	30	December 2012	12,500 for the first year and shall increase by 10% each year until it reaches 25,000	0.8 before 2014 and 1.0 for 2014, and shall increase by at least 15% every 3 years	1.0	December 2012	Class I Standard B	40.8	8	August 2011
<u>Under Construction</u>													
28	Datunhai Wastewater Treatment Plant	The Company	August 2013	30	Same as the commencement date of commercial operation	18,000 for the first year, 19,500 for the second year, 21,000 for the third year, 22,500 for the fourth year, up to the designed capacity	0.9	N/A	November 2015 ⁽⁷⁾ (expected)	Class I Standard B	48.0	N/A	August 2013

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No.	Project	Project Company	Date of Signing Concession Agreement	Commencement		Guaranteed Minimum Wastewater Unit Price	Actual Wastewater Unit Price	Actual/Expected Commencement Date of Commercial Operation	Water Quality Required	Investment Amount ⁽⁵⁾	Investment Payback Period ⁽⁶⁾	Commencement Date of Consolidation with our Group's Financial Statements
				Concession Period	Date of Concession Period							
Jiangsu												
In Operation												
29	Jiangsu Suning Economic Development Zone Wastewater Treatment Plant ⁽³⁾	Xuzhou Zhongfa Water	November 2010	30	July 2012	22,500	1.7	July 2012	Class I Standard A	65.1	10	May 2014
30	Wuxi Xishan Donggang Wastewater Treatment Plant ⁽²⁾	Wuxi Zhongfa Water	February 2007	25 (including 1 year construction period)	August 2008	9,000 for 2011 and 10,000 beginning August 2011	1.9 in 2008 and adjustable every two years	August 2008	Class I Standard A	61.4	5	May 2014
31	Wuxi Xishan Ehu Wastewater Treatment Plant ⁽²⁾	Wuxi Zhongfa Water	February 2007	25 (including 1 year construction period)	August 2008	9,000 for 2011 and 10,000 beginning August 2011	1.9	August 2008	Class I Standard A	30.6	5	May 2014
32	Wuxi Xishan Xibei Wastewater Treatment Plant ⁽²⁾	Wuxi Zhongfa Water	February 2007	25 (including 1 year construction period)	September 2008	4,500 for 2011, 5,000 beginning September 2011 and 22,500 beginning April 2012	1.4	September 2008	Class I Standard A	59.5	9	May 2014
Xinjiang												
Under Construction												
33	Xinjiang Wuwu Industrial Zone Wastewater Treatment Plant ⁽⁶⁾	Kelamayi Haorui Water	August 2013	30	Same as the date of commencement of construction	30,000	3.5	October 2015 (expected) ⁽⁷⁾	Class I Standard A	150.0	9	July 2013
Shandong												
Under Construction												
34	Jinan Lingang Economic Development Zone Wastewater Treatment Plant Phase I	Shandong Lingang Water	February 2013	No less than 21 years (including 1 year construction period)	The date when the front-end engineering is completed	17,000 for the first year, 19,000 for the second year and 25,000 since the third year	1.4	June 2015 (expected) ⁽⁷⁾	Class I Standard A	52.0	8	February 2014

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No.	Project	Project Company	Date of Signing		Commencement		Guaranteed Minimum		Actual Wastewater Unit Price	Actual/Expected Commencement		Investment Amount ⁽⁵⁾	Investment Payback Period ⁽⁶⁾	Commencement Date of Consolidation with our Group's Financial Statements
			Concession Agreement	Concession Period	Date of Concession Period	Guaranteed Volume	Wastewater Unit Price	Wastewater Unit Price		Date of Commercial Operation	Water Quality Required			
				(years)		(tonnes/day)	(RMB/tonne)	(RMB/tonne)	(RMB/tonne)			(RMB million)	(years)	
35	Jinan New Material Industrial Park Wastewater Treatment Plant	Qingzheng New Material	May 2014	30	Same as the date of commencement of commercial operation	—	0.7 for urban residents and 1.1 for non-residents, subject to adjustment every year	N/A	N/A	July 2015 (expected) ⁽⁷⁾	Class I Standard A	83.0	12	April 2014

Notes:

- (1) We obtained the project through a capital contribution by, or an acquisition from, Yunnan Province Water.
- (2) We obtained the project through the acquisition of Wuxi Zhongfa Water in May 2014.
- (3) We obtained the project through the acquisition of Wuxi Zhongfa Water in May 2014. Wuxi Zhongfa Water holds all of the equity interests of Xuzhou Zhongfa Water.
- (4) We obtained the project through the acquisition of Guoqing Environmental in September 2013. Guoqing Environmental holds 50% of the equity interests of Jinning Water.
- (5) Investment amount = direct construction costs + design, supervision and other indirect costs + reserve funds and initial working capital.
- (6) Investment payback period represents the period when the investment amount is fully recovered by the expected accumulated net cash inflow.
- (7) The actual commencement dates of commercial operation of our projects under construction may be different from the estimated commencement date of commercial operation. The timing of the commencement of commercial operation is subject to various conditions which are not under our control, such as the completion of construction of pipeline network by local governments and governmental approval procedures.
- (8) This project applies the advanced treatment process and utilises MBR technology.

The table below sets out the average utilisation rate of our wastewater treatment BOT projects for the years ended 31 December 2012, 2013 and 2014.

For the years ended 31 December									
No.	BOT Project	2012			2013			2014	
		Designed Capacity	Utilised Capacity	Utilisation Rate ⁽¹⁾	Utilised Capacity	Utilisation Rate ⁽¹⁾	Utilised Capacity	Utilisation Rate ⁽¹⁾	
		(10,000 tonnes/day)	(10,000 tonnes/day)		(10,000 tonnes/day)		(10,000 tonnes/day)		
1	Cangyuan Wastewater Treatment Plant	0.8	—	—	0.4	50.0%	0.5	62.5%	
2	Dayao Wastewater Treatment Plant	1.0	—	—	0.5	50.0%	0.6	60.0%	
3	Gengma Wastewater Treatment Plant	1.0	0.1	10.0% ⁽²⁾	0.4	40.0% ⁽²⁾	0.6	60.0%	
4	Heqing Wastewater Treatment Plant	0.8	0.6	75.0%	0.5	62.5%	0.5	62.5%	
5	Jianshui Wastewater Treatment Plant	2.5	0.7	28.0% ⁽²⁾	0.7	28.0% ⁽²⁾	1.4	56.0% ⁽²⁾	
6	Jinggu Wastewater Treatment Plant	1.0	0.2	20.0% ⁽²⁾	0.4	40.0% ⁽²⁾	0.6	60.0%	
7	Jinning Wastewater Treatment Plant (Advanced Treatment)	1.5	—	—	1.2	80.0%	1.2	80.0%	
8	Lancang Wastewater Treatment Plant	1.0	—	—	0.5	50.0% ⁽²⁾	0.7	70.0%	
9	Lanping Wastewater Treatment Plant	1.0	—	—	0.1	10.0% ⁽²⁾	0.2	20.0% ⁽²⁾	
10	Lianghe Wastewater Treatment Plant	0.5	—	—	0.2	40.0% ⁽²⁾	0.3	60.0%	
11	Ludian Wastewater Treatment Plant	1.5	0.7	46.7% ⁽²⁾	1.1	73.3%	1.4	93.3%	
12	Lufeng Wastewater Treatment Plant	2.0	0.7	35.0% ⁽²⁾	0.9	45.0% ⁽²⁾	1.1	55.0%	
13	Lushui Liuku Wastewater Treatment Plant	1.3	—	—	—	—	0.3	23.1% ⁽²⁾	

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For the years ended 31 December

No.	BOT Project	2012			2013			2014		
		Designed Capacity	Utilised Capacity	Utilisation Rate ⁽¹⁾	Utilised Capacity	Utilisation Rate ⁽¹⁾	Utilised Capacity	Utilisation Rate ⁽¹⁾		
		(10,000 tonnes/day)	(10,000 tonnes/day)		(10,000 tonnes/day)		(10,000 tonnes/day)			
14	Luxi Wastewater Treatment Plant	2.0	1.2	60.0%	1.4	70.0%	1.4	70.0%		
15	Menghai Wastewater Treatment Plant	1.0	—	—	0.2	20.0% ⁽²⁾	0.5	50.0%		
16	Menglian Wastewater Treatment Plant	0.8	—	—	0.2	25.0% ⁽²⁾	0.4	50.0%		
17	Mojiang Wastewater Treatment Plant	1.0	0.4	40.0% ⁽²⁾	0.5	50.0%	0.6	60.0%		
18	Nanjiang Wastewater Treatment Plant	0.5	0.2	40.0% ⁽²⁾	0.2	40.0% ⁽²⁾	0.2	40.0% ⁽²⁾		
19	Ninger Wastewater Treatment Plant	1.0	0.3	30.0% ⁽²⁾	0.3	30.0% ⁽²⁾	0.5	50.0%		
20	Shuangjiang Wastewater Treatment Plant	1.0	—	—	0.2	20.0% ⁽²⁾	0.5	50.0%		
21	Tengchong Wastewater Treatment Plant	2.5	—	—	0.9	36.0%	2.0	80.0%		
22	Weixin Wastewater Treatment Plant	1.0	0.6	60.0%	0.6	60.0%	0.8	80.0%		
23	Yaoan Wastewater Treatment Plant	0.8	—	—	—	—	0.5	62.5%		
24	Yingjiang Wastewater Treatment Plant	1.5	—	—	0.8	53.3%	1.0	66.7%		
25	Yongren Wastewater Treatment Plant	0.5	0.1	20.0% ⁽²⁾	0.1	20.0% ⁽²⁾	0.4	80.0%		
26	Yunlong Wastewater Treatment Plant	0.5	—	—	—	—	0.2	40.0% ⁽²⁾		
27	Zhenxiong Wastewater Treatment Plant	2.5	—	—	1.1	44.0% ⁽²⁾	1.8	72.0%		

For the years ended 31 December

No.	BOT Project	2012			2013			2014		
		Designed Capacity	Utilised Capacity	Utilisation Rate ⁽¹⁾	Utilised Capacity	Utilisation Rate ⁽¹⁾	Utilised Capacity	Utilisation Rate ⁽¹⁾	Utilised Capacity	Utilisation Rate ⁽¹⁾
		(10,000 tonnes/day)	(10,000 tonnes/day)		(10,000 tonnes/day)		(10,000 tonnes/day)		(10,000 tonnes/day)	
28	Datunhai Wastewater Treatment Plant	3.0	—	—	—	—	—	—	—	—
29	Jiangsu Suining Economic Development Zone Wastewater Treatment Plant	2.3	—	—	—	—	1.8	78.3%	—	—
30	Wuxi Xishan Donggang Wastewater Treatment Plant	2.0	—	—	—	—	1.9	95.0%	—	—
31	Wuxi Xishan Ehu Wastewater Treatment Plant	1.0	—	—	—	—	1.2	120.0% ⁽³⁾	—	—
32	Wuxi Xishan Xibei Wastewater Treatment Plant	2.3	—	—	—	—	1.8	78.3%	—	—
33	Xinjiang Wuwu Industrial Zone Wastewater Treatment Plant	3.0	—	—	—	—	—	—	—	—
34	Jinan Lingang Economic Development Zone Wastewater Treatment Plant Phase I	2.5	—	—	—	—	—	—	—	—
35	Jinan New Material Industrial Park Wastewater Treatment Plant	3.0	—	—	—	—	—	—	—	—

Notes:

(1) Utilisation rate = utilised capacity ÷ designed capacity.

(2) The projects ran at a utilisation rate of below 50% primarily because there was inadequate pipeline network to collect incoming wastewater for treatment. The local governments were responsible for the construction of the pipeline network. According to the concession agreements of these projects, we are entitled to bill tariffs based on the guaranteed minimum volume when the actual capacity falls below the designed capacity.

(3) The facility operated at over 100% capacity for the year ended 31 December 2014 primarily because the demand for wastewater treatment increased due to the increase in population in the region. We intend to expand the facility in the second half of 2015.

— No utilised capacity or utilisation rate is presented during the periods indicated as the projects had not yet been acquired by us or were under construction or in trial operation.

According to the terms of the concession agreements for our BOT wastewater treatment projects, we have the right to bill our customers, which are normally local governments, wastewater treatment tariffs based on a guaranteed minimum volume and guaranteed minimum unit price. See “Business — Concession Projects — Key Terms of Concession Agreements — Tariff and payments”. Set out below are the wastewater treatment tariffs we received based on a guaranteed minimum volume and guaranteed minimum unit price for our BOT wastewater treatment projects in operation during the Track Record Period:

For the years ended 31 December														
Project	2012					2013					2014			
	Designed capacity (10,000 tonnes/day)	Total guaranteed minimum volume		Tariff based on guaranteed minimum volume/unit price ⁽²⁾		Total guaranteed minimum volume	Tariff based on guaranteed minimum volume/unit price		Total actual volume	Tariff based on guaranteed minimum volume/unit price ⁽²⁾		Total guaranteed minimum volume	Tariff based on guaranteed minimum volume/unit price ⁽²⁾	
		(10,000 tonnes/year)	(RMB/tonne)	(10,000 tonnes/year)	(RMB/tonne)		(10,000 tonnes/year)	(RMB/tonne)		(10,000 tonnes/year)	(RMB/tonne)	(10,000 tonnes/year)	(10,000 tonnes/year)	(RMB/tonne)
1 Cangyuan Wastewater Treatment Plant	0.8	—	—	—	—	175.2	1.0	141.8	175.2 ⁽¹⁾	204.4	1.0	171.8	204.4 ⁽¹⁾	
2 Dayao Wastewater Treatment Plant	1.0	—	—	—	—	149.8	1.1	110.9	163.3 ⁽¹⁾	255.5	1.1	228.4	278.5 ⁽¹⁾	
3 Gengma Wastewater Treatment Plant	1.0	73.2	0.8	22.4	58.6 ⁽¹⁾	231.2	1.0	135.1	231.2 ⁽¹⁾	267.7	1.0	223.5	267.7 ⁽¹⁾	
4 Heqing Wastewater Treatment Plant	0.8	—	—	—	—	17.4	1.0	14.5	17.4 ⁽¹⁾	233.6	1.0	193.5	233.6 ⁽¹⁾	
5 Jianshui Wastewater Treatment Plant	2.5	367.5	0.8	201.8	294.0 ⁽¹⁾	608.8	0.8	266.8	487.0 ⁽¹⁾	700.0	0.8	512.8	560.0 ⁽¹⁾	
6 Jinggu Wastewater Treatment Plant	1.0	237.9	1.0	67.2	237.9 ⁽¹⁾	273.8	1.0	151.0	237.8 ⁽¹⁾	310.3	1.0	201.7	310.3 ⁽¹⁾	
7 Jinning Wastewater Treatment Plant (Advanced Treatment)	1.5	—	—	—	—	110.4	0.7	108.8	77.3 ⁽¹⁾	438.0	0.7	441.6	306.6	
8 Lancang Wastewater Treatment Plant	1.0	12.0	1.1	—	132 ⁽¹⁾	219.0	1.1	111.8	240.9 ⁽¹⁾	219.0	1.1	242.2	240.9	
9 Lanping Wastewater Treatment Plant	1.0	—	—	—	—	178.8	1.0	33.8	178.8 ⁽¹⁾	248.8	1.0	86.3	248.8 ⁽¹⁾	
10 Lianghe Wastewater Treatment Plant	0.5	—	—	—	—	74.9	1.0	19.4	74.9 ⁽¹⁾	138.5	1.0	114.0	138.5 ⁽¹⁾	

For the years ended 31 December

For the years ended 31 December													
Project	2012					2013					2014		
	Designed capacity (10,000 tonnes/day)	Total guaranteed minimum volume		Tariff based on guaranteed minimum volume/unit price ⁽²⁾		Total guaranteed minimum volume	Tariff based on guaranteed minimum volume/unit price ⁽²⁾		Total guaranteed minimum volume	Tariff based on guaranteed minimum volume/unit price ⁽²⁾			
		(10,000 tonnes/year)	(RMB/tonne)	(10,000 tonnes/year)	(RMB/10,000/year)		(10,000 tonnes/year)	(RMB/tonne)		(10,000 tonnes/year)	(RMB/10,000/year)	(10,000 tonnes/year)	(RMB/tonne)
11 Ludian Wastewater Treatment Plant	1.5	476.0	0.8	249.9	380.8 ⁽¹⁾	529.5	0.8	400.3	423.6 ⁽¹⁾	608.8	0.8	518.0	487.0 ⁽¹⁾
12 Lufeng Wastewater Treatment Plant	2.0	366.0	1.0	86.9	362.3 ⁽¹⁾	438.0	1.1	340.1	477.4 ⁽¹⁾	511.0	1.1	417.2	557.0 ⁽¹⁾
13 Lushui Wastewater Treatment Plant	1.3	—	—	—	—	—	—	—	—	332.2	1.0	125.0	332.2 ⁽¹⁾
14 Luxi Wastewater Treatment Plant	2.0	476.0	0.8	430.4	376.0 ⁽¹⁾	547.8	0.8	520.0	432.8 ⁽¹⁾	620.8	0.8	517.5	490.4 ⁽¹⁾
15 Menghai Wastewater Treatment Plant	1.0	—	—	—	—	192.0	1.0	35.8	192.0 ⁽¹⁾	251.0	1.0	165.3	251.0 ⁽¹⁾
16 Menglian Wastewater Treatment Plant	0.8	8.6	1.0	—	8.6 ⁽¹⁾	164.3	1.0	29.0	164.3 ⁽¹⁾	164.3	1.0	136.9	164.3 ⁽¹⁾
17 Mojiang Wastewater Treatment Plant	1.0	151.2	1.0	110.4	151.2 ⁽¹⁾	231.6	1.0	181.4	231.6 ⁽¹⁾	249.9	1.0	217.6	249.9 ⁽¹⁾
18 Nanjian Wastewater Treatment Plant	0.5	146.4	1.0	62.7	146.4 ⁽¹⁾	164.3	1.0	61.6	164.3 ⁽¹⁾	182.5	1.0	64.6	182.5 ⁽¹⁾
19 Ninger Wastewater Treatment Plant	1.0	147.0	1.2	77.6	176.4 ⁽¹⁾	243.5	1.2	118.7	292.2 ⁽¹⁾	280.0	1.2	187.1	336.0 ⁽¹⁾
20 Shuangjiang Wastewater Treatment Plant	1.0	—	—	—	—	73.2	1.0	22.7	73.2 ⁽¹⁾	231.2	1.0	186.1	231.2 ⁽¹⁾
21 Tengchong Wastewater Treatment Plant	2.5	—	—	—	—	547.5	0.8	165.0	438.0 ⁽¹⁾	638.8	0.8	743.6	511.0
22 Weixin Wastewater Treatment Plant	1.0	285.3	0.8	215.8	228.2 ⁽¹⁾	321.1	0.8	207.5	256.9 ⁽¹⁾	357.6	1.1	284.6	393.4 ⁽¹⁾
23 Yaocan Wastewater Treatment Plant	0.8	—	—	—	—	—	—	—	—	175.2	1.1	184.2	192.7

BUSINESS

For the years ended 31 December

Project	2012						2013						2014					
	Designed capacity	Total guaranteed minimum volume			Tariff based on guaranteed minimum volume/ unit price ⁽²⁾			Total guaranteed minimum volume	Tariff based on guaranteed minimum volume/ unit price ⁽²⁾			Total guaranteed minimum volume	Tariff based on guaranteed minimum volume/ unit price ⁽²⁾					
		(10,000 tonnes/year)	(RMB/tonne)	(10,000 tonnes/year)	Guaranteed minimum unit price	Total actual volume	(RMB10,000/ year)		(10,000 tonnes/year)	Guaranteed minimum unit price	Total actual volume		(RMB/tonne)	(10,000 tonnes/year)	Guaranteed minimum unit price	Total actual volume	(RMB10,000/ year)	
24 Yingjiang Wastewater Treatment Plant	1.5	—	—	—	—	—	160.7	1.0	123.8	160.7 ⁽¹⁾	406.2	1.0	347.9	406.2 ⁽¹⁾	—	—		
25 Yongren Wastewater Treatment Plant	0.5	119.0	1.1	41.7	129.7 ⁽¹⁾	1.1	137.0	1.1	47.1	149.3 ⁽¹⁾	155.2	1.1	128.4	170.7 ⁽¹⁾	—	—		
26 Yunlong Wastewater Treatment Plant	0.5	—	—	—	—	—	—	—	—	—	—	—	71.3	—	—	—		
27 Zhenxiang Wastewater Treatment Plant	2.5	32.5	0.8	—	26.0 ⁽¹⁾	0.8	462.8	0.8	137.0	370.2 ⁽¹⁾	554.0	0.8	625.9	443.2	—	—		
28 Wuxi Xishan Donggang Wastewater Treatment Plant	2.0	—	—	—	—	—	—	—	—	—	214.0	1.9	406.0	406.6	—	—		
29 Wuxi Xishan Ehu Wastewater Treatment Plant	1.0	—	—	—	—	—	—	—	—	—	214.0	1.9	250.6	406.6	—	—		
30 Wuxi Xishan Xibei Wastewater Treatment Plant	2.3	—	—	—	—	—	—	—	—	—	481.5	1.4	385.5	674.1 ⁽¹⁾	—	—		
31 Jiangsu Suining Economic Development Zone Wastewater Treatment Plant	2.3	—	—	—	—	—	—	—	—	—	481.5	1.7	541.2	833.0	—	—		

Notes:

- (1) For each of these projects, the actual wastewater treatment volume was lower than the guaranteed minimum treatment volume in the relevant period, and we billed wastewater treatment tariffs based on the guaranteed minimum wastewater treatment volume instead of the actual wastewater treatment volume according to the relevant concession agreement.
- (2) Calculated based on the guaranteed minimum volume per year multiplied by the guaranteed minimum unit price. Such tariff is different from the revenue recognised in our consolidated statements of comprehensive income according to our accounting policies.

TOT

As at the Latest Practicable Date, we had a total of five TOT wastewater treatment projects, the details of which are set out in the table below:

No.	Project	Project Company	Date of Signing Concession Agreement	Concession Period (years)	Commencement Date of Concession Period	Guaranteed Minimum Treatment Volume (tonnes/day)	Guaranteed Minimum Wastewater Unit Price (RMB/tonne)	Actual Wastewater Unit Price (RMB/tonne)	Commencement Date of Commercial Operation	Water Quality Required	Investment Amount ⁽³⁾ (RMB million)	Investment Payback Period ⁽⁴⁾ (years)	Commencement Date of Consolidation with our Group's Financial Statement
Yunnan													
1	Longchuan Wastewater Treatment Plant ⁽¹⁾	Longchuan Water	July 2010	30	January 2012	3,500 for the first two years and shall increase by 500 each year thereafter until it reaches 5,000	1.0 for 2012 and shall increase by 0.2 every 3 years	1.0	January 2012	Class I Standard B	12.8	12	August 2011
2	Mile Wastewater Treatment Plant ⁽¹⁾	Mile Water	September 2010	30	January 2011	15,000 for the first year and shall increase by 10% each year until it reaches 25,000	0.8, subject to adjustment every year	0.9	January 2011	Class I Standard B	45.0	9	January 2011
3	Shufu Wastewater Treatment Plant ⁽¹⁾	Shufu Water	May 2011	30	May 2011	9,000 in the first year and shall increase by 10% each year until it reaches 15,000	1.1 for 2011 and shall increase by 15% every 3 years	1.1	May 2011	Class I Standard B	24.0	11	May 2011
4	Yongping Wastewater Treatment Plant	Yongping Water	September 2010	30	June 2014	4,000 for the first year and shall increase by 500 each year thereafter until it reaches 8,000	0.8, subject to adjustment	1.0	June 2014	Class I Standard B	13.0	9	August 2011
Jiangsu													
5	Wuxi Xishan Anzhen Wastewater Treatment Plant Phase I ⁽²⁾	Wuxi Zhongfa Water	August 2010	21	October 2007	20,000	1.3 since August 2008 and adjustable every two years	1.3	October 2007	Class I Standard B	35.9	5	May 2014

Notes:

- (1) We obtained the project through a capital contribution by, or an acquisition from, Yunnan Province Water.
- (2) We obtained the project through the acquisition of Wuxi Zhongfa Water in May 2014. Wuxi Zhongfa Water holds all of the shares of Xuzhou Zhongfa Water.
- (3) Investment amount = acquisition costs of concession right.
- (4) Investment payback period represents the period when the investment amount is fully recovered by the expected accumulated net cash inflow.

The table below sets out the average utilisation rate of our TOT wastewater treatment projects for the years ended 31 December 2012, 2013 and 2014.

No.	TOT Project	For the years ended 31 December					
		2012			2013		
		Designed Capacity	Utilised Capacity	Utilisation Rate ⁽¹⁾	Utilised Capacity	Utilisation Rate ⁽¹⁾	Utilisation Rate ⁽¹⁾
		(10,000 tonnes/day)	(10,000 tonnes/day)		(10,000 tonnes/day)		(10,000 tonnes/day)
1	Longchuan Wastewater Treatment Plant	0.5	0.1	20.0% ⁽²⁾	0.2	40.0% ⁽²⁾	0.3
2	Mile Wastewater Treatment Plant	2.5	1.4	56.0%	1.4	56.0%	1.5
3	Shuifu Wastewater Treatment Plant	1.5	0.4	26.7% ⁽²⁾	0.4	26.7% ⁽²⁾	0.4
4	Yongping Wastewater Treatment Plant	0.8	—	—	—	—	0.3
5	Wuxi Xishan Anzhen Wastewater Treatment Plant Phase I	2.0	—	—	—	—	1.9

Notes:

(1) Utilisation rate = utilised capacity ÷ designed capacity.

(2) The projects ran at a utilisation rate of below 50% primarily because there was inadequate pipeline network to collect incoming wastewater for treatment. The local governments were responsible for the construction of the pipeline network. According to the concession agreements of these projects, we are entitled to bill tariffs based on the guaranteed minimum volume when the actual capacity falls below the designed capacity.

— No utilised capacity or utilisation rate is presented during the periods indicated as the project had not yet been acquired by us.

According to the terms of the concession agreements for our TOT wastewater treatment projects, we have the right to bill our customers, which are normally local governments, wastewater treatment tariffs based on a guaranteed minimum volume and guaranteed minimum unit price. See “Business — Concession Projects — Key Terms of Concession Agreements — Tariff and payments”. Set out below are the wastewater treatment tariffs we received based on a guaranteed minimum volume and guaranteed minimum unit price for our TOT wastewater treatment projects in operation during the Track Record Period:

For the years ended 31 December													
Project	2012					2013					2014		
	Tariff based on					Tariff based on					Tariff based on		
	Designed capacity	guaranteed minimum volume	Guaranteed minimum unit price	Total actual volume	guaranteed minimum volume/unit price ⁽²⁾	guaranteed minimum volume	Guaranteed minimum unit price	Total actual volume	guaranteed minimum volume/unit price ⁽²⁾	Total actual volume	Guaranteed minimum unit price	Total actual volume	guaranteed minimum volume/unit price ⁽²⁾
	(10,000 tonnes/day)	(10,000 tonnes/year)	(RMB/tonne)	(10,000 tonnes/year)	(RMB10,000/ year)	(10,000 tonnes/year)	(RMB/tonne)	(10,000 tonnes/year)	(RMB10,000/ year)	(10,000 tonnes/year)	(RMB/tonne)	(10,000 tonnes/year)	(RMB10,000/ year)
1 Longchuan Wastewater Treatment Plant	0.5	128.1	1.0	3.1	128.1 ⁽¹⁾	127.8	1.0	65.1	127.8 ⁽¹⁾	146.0	1.0	109.0	146.0 ⁽¹⁾
2 Mile Wastewater Treatment Plant	2.5	640.5	0.9	500.2	576.5 ⁽¹⁾	730.0	0.9	515.9	657.0 ⁽¹⁾	821.3	0.9	542.5	739.1 ⁽¹⁾
3 ShuiFu Wastewater Treatment Plant	1.5	366.2	1.1	136.7	402.8 ⁽¹⁾	420.2	1.1	146.2	462.0 ⁽¹⁾	474.8	1.3	147.5	600.56 ⁽¹⁾
4 Yongping Wastewater Treatment Plant	0.8	—	—	—	—	—	—	—	—	85.6	0.8	100.7	68.5 ⁽¹⁾
5 Wuxi Xishan Anzhen Wastewater Treatment Plant	2.0	—	—	—	—	—	—	—	—	428.0	1.3	398.8	556.4 ⁽¹⁾

Notes:

- (1) For each of these projects, the actual wastewater treatment volume was lower than the guaranteed minimum treatment volume in the relevant period, and we billed wastewater treatment tariffs based on the guaranteed minimum wastewater treatment volume instead of the actual wastewater treatment volume according to the relevant concession agreement.
- (2) Calculated based on the guaranteed minimum volume per year multiplied by the guaranteed minimum unit price. Such tariff is different from the revenue recognised in our consolidated statements of comprehensive income according to our accounting policies.

BOO

As at the Latest Practicable Date, we had five BOO wastewater treatment projects, the details of which are set out in the table below:

No.	Project	Project Company	Date of Signing		Commencement		Guaranteed Minimum Volume	Guaranteed Minimum Wastewater Unit Price		Actual Wastewater Unit Price	Actual/Expected Date of Commencement Commercial Operation	Water Quality Required	Investment Amount ⁽³⁾	Investment Payback Period ⁽⁴⁾	Commencement Date of Consolidation with our Group's Financial Statements
			Concession Agreement	Concession Period	Concession Period	Date of Concession		(years)	(tonnes/day)						
Yunnan															
In Operation															
1	Dali Wastewater Treatment Plant	Dali Water	October 2014	30	November 2009	None	0.8	0.8	0.8	0.8	November 2009	Class I Standard B	81.0	6	January 2011
2	Jiangnan Wastewater Treatment Plant ⁽¹⁾	Jinghong Water	October 2014	30	June 2011	None	0.8	0.8	0.8	0.8	April 2003	Class I Standard B	121.2	17	January 2011
Under Construction															
3	Dali Wastewater Treatment Plant Phase II ⁽¹⁾⁽⁶⁾	Dali Water	October 2014	30	Same as the commencement date of commercial operation	None	0.8	N/A	N/A	N/A	June 2015 (expected) ⁽⁵⁾	Class I Standard B	189.9	N/A	January 2011
4	Jiangnan Wastewater Treatment Plant Phase II ⁽¹⁾	Jinghong Water	October 2014	30	Same as the commencement date of commercial operation	None	0.8	0.8	0.8	0.8	September 2010 (trial operation) ⁽⁶⁾	Class I Standard B	191.8	29	January 2011
5	Mengla Wastewater Treatment Plant ⁽²⁾	Mengla Water	October 2014	30	April 2013	None	0.8	0.8	0.8	0.8	April 2014 (trial operation) ⁽⁷⁾	Class I Standard B	45.0	26	September 2012

Notes:

- (1) We obtained the project through a capital contribution by Yunnan Province Water.
- (2) We obtained the project through an acquisition of Mengla Water from Jinghong City Investment Development Co. Ltd. in September 2012.
- (3) Investment amount = direct construction costs + design, supervision and other indirect costs + reserve funds and initial working capital.
- (4) Investment payback period represents the period when the investment amount is fully recovered by the expected accumulated net cash inflow.

- (5) The actual commencement dates of commercial operation of our projects under construction may be different from the estimated commencement date of commercial operation. The timing of the commencement of commercial operation is subject to various conditions which are not under our control, such as the completion of construction of pipeline network by local governments and governmental approval procedures.
- (6) The project commenced trial operation in September 2010. As at the Latest Practicable Date, the project had not commenced commercial operation as the procedures for final acceptance of construction by the local government had not been completed. Such procedures were still pending primarily due to the construction of the ancillary pipeline network, for which the local government was responsible, had not been completed. Therefore, the timing of commercial operation is subject to the construction of the ancillary pipeline network by the local government.
- (7) The project had commenced trial operation in April 2014. As at the Latest Practicable Date, the project had not commenced commercial operation as the procedures for final acceptance of construction by the local government had not been completed. Such procedures were still pending primarily due to the construction of the ancillary pipeline network, for which the local government was responsible, had not been completed. Therefore, the timing of commercial operation is subject to the construction of the ancillary pipeline network by the local government.
- (8) This project applies the advanced treatment process and utilises MBR technology.

The table below sets out the average utilisation rate of our BOO wastewater treatment projects for the years ended 31 December 2012, 2013 and 2014:

No.	BOO Project	For the years ended 31 December					
		2012		2013		2014	
		Designed Capacity (10,000 tonnes/day)	Utilised Capacity (10,000 tonnes/day)	Utilisation Rate ⁽¹⁾	Utilised Capacity (10,000 tonnes/day)	Utilisation Rate ⁽¹⁾	Utilised Capacity (10,000 tonnes/day)
1	Dali Wastewater Treatment Plant	5.4	5.0	92.6%	5.0	92.6%	5.4
2	Jiangnan Wastewater Treatment Plant	2.5	1.5	60.0%	2.1	84.0%	2.2
3	Dali Wastewater Treatment Plant Phase II	7.5	—	—	—	—	—
4	Jiangnan Wastewater Treatment Plant Phase II	2.5	—	—	—	—	—
5	Mengla Wastewater Treatment Plant	1.0	—	—	—	—	—

Notes:

- (1) Utilisation rate = utilised capacity ÷ designed capacity.
- (2) The projects ran at a utilisation rate of below 50% primarily because there was inadequate pipeline network to collect incoming wastewater for treatment. The local governments were responsible for the construction of the pipeline network.
- No utilised capacity or utilisation rate is presented during the periods indicated as the projects had not yet been acquired by us or were under construction or in trial operation.

No guaranteed minimum volume is set out in the concession agreements for our BOO projects. During the Track Record Period, none of our BOO wastewater treatment projects had an increase in the unit price of wastewater treatment tariff according to the relevant concession agreements.

TOO

As at the Latest Practicable Date, we had two TOO wastewater treatment projects, the details of which are set out in the table below:

No.	Project	Project Company	Date of Signing Concession Agreement	Concession Period	Commencement Date of Concession Period	Guaranteed Minimum Volume	Guaranteed Minimum Wastewater Unit Price	Actual Wastewater Unit Price	Commencement Date of Commercial Operation	Water Quality Required	Investment Amount ⁽²⁾	Investment Payback Period ⁽³⁾	Commencement Date of Consolidation with our Group's Financial Statements
				(years)		(tonnes/day)	(RMB/tonne)	(RMB/tonne)			(RMB million)	(years)	
Yunnan													
<i>In Operation</i>													
1	Gejiu Wastewater Treatment Plant ⁽¹⁾	Honghe Water	August 2012	30	June 2014	30,000 for the first year, increase by 5% every year until it reaches 50,000	1.1 for the first year and subject to adjustment	1.1	June 2014	Class I Standard B	75.6	13	May 2014
2	Mengzi Wastewater Treatment Plant ⁽¹⁾	Honghe Water	August 2012	30	June 2014	24,000 for the first year, increase by 5% every year until it reaches 40,000	1.1 for the first year and subject to adjustment	1.1	June 2014	Class I Standard B	61.2	13	May 2014

Notes:

- (1) We obtained the Gejiu Wastewater Treatment Plant and Mengzi Wastewater Treatment Plant through asset acquisitions. The acquisition agreements were signed in August 2012 and the transfer of the assets of the two plants was completed in May 2014.
- (2) Investment amount = acquisition costs of underlying asset of the concession project.
- (3) Investment payback period represents the period when the investment amount is fully recovered by the expected accumulated net cash inflow.

The table below sets out the average utilisation rate of our TOO wastewater treatment projects for the years ended 31 December 2012, 2013 and 2014:

For the years ended 31 December						
No.	TOO Project	Designed Capacity	2012		2013	
			Utilised Capacity	Utilisation Rate ⁽¹⁾	Utilised Capacity	Utilisation Rate ⁽¹⁾
		(10,000 tonnes/day)	(10,000 tonnes/day)		(10,000 tonnes/day)	
1	Gejiu Wastewater Treatment Plant	5.0	—	—	—	—
2	Mengzi Wastewater Treatment Plant	4.0	—	—	2.3	57.5%

Note:

(1) Utilisation rate = utilised capacity ÷ designed capacity.

— No utilised capacity or utilisation rate is presented during the periods indicated as the above projects had not yet been acquired by us.

According to the terms of the concession agreement for our TOO wastewater treatment project, we have the right to bill our customer, which is a local government, wastewater treatment tariffs based on a guaranteed minimum volume and guaranteed minimum unit price. See “Business — Concession Projects — Key Terms of Concession Agreements — Tariff and payments”. Set out below are the wastewater treatment tariffs we received based on a guaranteed minimum volume and guaranteed minimum unit price for our TOO wastewater treatment projects in operation during the Track Record Period:

For the years ended 31 December																	
Project	2012					2013					2014						
	Designed capacity	Total guaranteed minimum volume	Guaranteed minimum unit price	Total actual volume	Tariff based on guaranteed minimum volume/unit price			Total guaranteed minimum volume	Guaranteed minimum unit price	Total actual volume	Tariff based on guaranteed minimum volume/unit price			Total guaranteed minimum volume	Guaranteed minimum unit price	Total actual volume	Tariff based on guaranteed minimum volume/unit price
					(10,000 tonnes/day)	(10,000 tonnes/year)	(RMB/tonne)				(10,000 tonnes/year)	(RMB10,000/year)	(10,000 tonnes/year)				
1 Gejiu Wastewater Treatment Plant	5.0	—	—	—	—	—	—	—	—	—	—	—	—	642.0	1.1	584.7	706.2 ⁽¹⁾
2 Mengzi Wastewater treatment Plant	4.0	—	—	—	—	—	—	—	—	—	—	—	—	513.6	1.1	482.9	565.0 ⁽¹⁾

Note:

- (1) For each of these projects, the actual wastewater treatment volume was lower than the guaranteed minimum treatment volume in the relevant period, and we billed wastewater treatment tariffs based on the guaranteed minimum wastewater treatment volume instead of the actual wastewater treatment volume according to the relevant concession agreement.

Tap water supply

TOT

As at the Latest Practicable Date, we had two TOT tap water supply projects. We acquired the facilities of the two projects through assets acquisition. We then entered into concession agreements with the local governments to obtain the concession rights for free. The details of our TOT projects are set out in the table below:

No.	Project	Project Company	Date of Signing Concession Agreement	Concession Period	Commencement Date of Concession Period	Actual Unit Price	Commencement Date of Commercial Operation	Water Quality Required	Investment Amount ⁽²⁾	Investment Payback Period ⁽³⁾	Commencement Date of Consolidation with our Group's Financial Statements
Yunnan											
In Operation											
1	Yunlong Water Supply Plant ⁽¹⁾	Yunlong Water	April 2011	30	January 2011	2.0	January 2011	National Drinking Water Standard (GB-5749-2006)	4.0	14	January 2011
Shandong											
In Operation											
2	Jinan New Material Industrial Park Tap Water Supply Plant	Qingzheng New Material	May 2014	30	April 2014	3.7	April 2014	National Drinking Water Standard (GB-5749-2006)	83.0	6	April 2014

Notes:

- (1) We obtained the project through a capital contribution by Yunnan Province Water.
- (2) Investment amount = acquisition costs paid to obtain the concession right.
- (3) Investment payback period represents the period when the investment amount is fully recovered by the expected accumulated net cash inflow.

The table below sets out the average utilisation rate of our water supply TOT projects in operation for the years ended 31 December 2012, 2013 and 2014.

No.	TOT Project	For the years ended 31 December					
		2012			2013		
		Designed Capacity	Utilised Capacity	Utilisation Rate	Utilised Capacity	Utilisation Rate	Utilisation Rate
		(10,000 tonnes/day)	(10,000 tonnes/day)		(10,000 tonnes/day)		
1	Yunlong Water Supply Plant	0.5	0.2	40.0%	0.2	40.0%	60.0%
2	Jinan New Material Industrial Park Tap Water Supply Plant	7.0	—	—	—	—	30.0% ⁽²⁾

Notes:

(1) Utilisation rate = utilised capacity ÷ designed capacity.

(2) The Jinan New Material Industrial Park Tap Water Supply Project ran at the utilisation rate of 30.0% primarily because the occupancy rate of the industrial park where Jinan Water Project was located was too low and there was insufficient demand for tap water supply in the area. The low utilisation rate will not materially affect our financial return in this project because we pay the acquisition consideration of the concession right to the local government by instalments and the amount of consideration to be paid each year is determined based on the actual supplied tap water volume of that year. The total consideration is RMB83.0 million. If the actual annual supplied tap water volume (Y million tonnes per year) is less than seven million tonnes per year (approximately 19,000 tonnes per day), the annual payment amount is equivalent to $Y \div 7 \times \text{RMB3.0 million}$. If the annual supplied tap water volume is more than seven million tonnes per year, the annual payment amount will increase according to the concession agreement.

— No utilised capacity or utilisation rate is presented during the periods indicated as the project had not yet been acquired by us.

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No.	Project	Project Company	Date of Signing Concession Agreement		Commencement Date of Concession Period		Actual Unit Price	Actual/Expected Commencement Date of Commercial Operation		Water Quality Required	Investment Amount ⁽⁴⁾	Investment Payback Period ⁽⁵⁾	Group's Financial Statements	Commencement Date of Consolidation with our Group
Yunnan														
In Operation														
1	Dali Water Supply Plant I ⁽¹⁾	Dali Water	October 2014	30	November 2009	2.4	November 2009		National Drinking Water Standard (GB-5749-2006)	16.7	2		January 2011	
2	Dali Water Supply Plant II ⁽¹⁾	Dali Water	October 2014	30	November 2009	2.4	November 2009		National Drinking Water Standard (GB-5749-2006)	55.0	2		January 2011	
3	Dali Water Supply Plant III ⁽¹⁾	Dali Water	October 2014	30	November 2009	2.4	November 2009		National Drinking Water Standard (GB-5749-2006)	13.4	2		January 2011	
4	Dali Water Supply Plant V ⁽¹⁾	Dali Water	October 2014	30	November 2009	2.4	November 2009		National Drinking Water Standard (GB-5749-2006)	6.9	2		January 2011	
5	Jiangbei Tap Water Supply Plant ⁽¹⁾	Jinghong Water	October 2014	30	June 2011	2.5	June 2011	June 2011	National Drinking Water Standard (GB-5749-2006)	58.5	3		January 2011	
6	Jiannan Tap Water Supply Plant ⁽¹⁾	Jinghong Water	October 2014	30	June 2011	2.5	June 2011	June 2011	National Drinking Water Standard (GB-5749-2006)	127.3	4		January 2011	
7	Liuku Water Supply Plant I ⁽²⁾	Liuku Water	October 2014	30	January 2012	1.2	January 2012	January 2012	National Drinking Water Standard (GB-5749-2006)	53.5	9		June 2014	
8	Mengja Water Supply Plant ⁽³⁾	Mengja Water	October 2014	30	April 2013	1.5	April 2013	April 2013	National Drinking Water Standard (GB-5749-2006)	18.8	5		September 2012	
9	Menggeng Shuntong Tap Water Supply Plant ⁽¹⁾	Menggeng Water	October 2014	30	June 2011	1.7	June 2011	June 2011	National Drinking Water Standard (GB-5749-2006)	16.1	4		January 2011	

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No.	Project	Project Company	Date of Signing Concession Agreement	Commencement Date of Concession		Actual Unit Price	Actual/Expected Commencement Date of Commercial Operation	Water Quality Required	Investment Amount ⁽⁴⁾	Investment Payback Period ⁽⁵⁾	Commencement Date of Consolidation with our Group's Financial Statements
				Concession Period	Period						
<i>Under Construction</i>											
10	Dali Water Supply Plant I Expansion Project ⁽⁹⁾	Dali Water	October 2014	30	Same as the commencement date of commercial operation	N/A	February 2014 (trial operation) ⁽⁷⁾	National Drinking Water Standard (GB-5749-2006)	36.6	3	January 2011
11	Dali Water Supply Plant II Phase II ⁽⁹⁾	Dali Water	October 2014	30	Same as the commencement date of commercial operation	N/A	August 2015 (expected) ⁽⁶⁾	National Drinking Water Standard (GB-5749-2006)	87.3	N/A	January 2011
12	Dali Water Supply Plant VI (Haidong) (Phase I) ⁽¹⁾	Dali Water	October 2014	30	Same as the commencement date of commercial operation	N/A	July 2015 (expected) ⁽⁷⁾	National Drinking Water Standard (GB-5749-2006)	83.8	6	January 2011
13	Liuku Water Supply Plant II ⁽²⁾	Liuku Water	October 2014	30	Same as the commencement date of commercial operation	N/A	August 2015 (expected) ⁽⁶⁾	National Drinking Water Standard (GB-5749-2006)	45.1	N/A	June 2014

Notes:

- (1) We obtained the project through a capital contribution by Yunnan Province Water.
- (2) We obtained Liuku Water Supply Plant I and Liuku Water Supply Plant II through the acquisition of Liuku Water. The acquisition agreement was signed in 2012 and the share transfer was completed in June 2014.
- (3) We obtained the project through an acquisition of Mengla Water from Jinghong City Investment Development Co. Ltd. in September 2012.
- (4) Investment amount = direct construction costs + design, supervision and other indirect costs + reserve funds and initial working capital.
- (5) Investment payback period represents the period when the investment amount is fully recovered by the expected accumulated net cash inflow.
- (6) The actual commencement dates of commercial operation of our projects under construction may be different from the estimated commencement date of commercial operation. The timing of the commencement of commercial operation is subject to various conditions which are not under our control, such as the completion of construction of pipeline network by local governments and governmental approval procedures.
- (7) The projects are in trial operation and are expected to commence commercial operation in July 2015.
- (8) The project is in trial operation and is expected to commence commercial operation in August 2015. We have been able to bill tariffs according to the concession agreement since the commencement of trial operation.
- (9) This project applies the advanced treatment process and utilises CMF technology.

The table below sets out the average utilisation rate of our tap water supply BOO projects in operation for the years ended 31 December 2012, 2013 and 2014.

For the years ended 31 December									
No.	BOO Project	2012			2013			2014	
		Designed Capacity	Utilised Capacity	Utilisation Rate ⁽¹⁾	Utilised Capacity	Utilisation Rate ⁽¹⁾	Utilised Capacity	Utilisation Rate ⁽¹⁾	
		(10,000 tonnes/day)	(10,000 tonnes/day)		(10,000 tonnes/day)		(10,000 tonnes/day)		
1	Dali Water Supply Plant I	4.0	3.4	85.0%	2.8	70.0%	3.2	80.0%	
2	Dali Water Supply Plant II	4.0	2.8	70.0%	3.8	95.0%	3.6	90.0%	
3	Dali Water Supply Plant III	1.0	0.6	60.0%	0.7	70.0%	0.8	80.0%	
4	Dali Water Supply Plant V	2.0	1.6	80.0%	1.2	60.0%	0.9	45.0% ⁽²⁾	
5	Jiangbei Tap Water Supply Plant	4.0	2.3	57.5%	2.7	67.5%	2.8	70.0%	
6	Jiangnan Tap Water Supply Plant	6.0	4.3	71.7%	4.2	70.0%	4.5	75.0%	
7	Liuku Water Supply Plant I	2.0	—	—	—	—	1.2	60.0%	
8	Mengla Water Supply Plant	0.5	—	—	0.7	140.0% ⁽³⁾	1.0	200.0% ⁽³⁾	
9	Mengpeng Shuntong Tap Water Supply Plant	0.5	0.2	40.0% ⁽⁴⁾	0.2	40.0% ⁽⁴⁾	0.3	60.0%	
10	Dali Water Supply Plant I Expansion Project	2.5	—	—	—	—	—	—	
11	Dali Water Supply Plant II Phase II	4.0	—	—	—	—	—	—	
12	Dali Water Supply Plant VI (Haidong) (Phase I)	2.5	—	—	—	—	—	—	
13	Liuku Water Supply Plant II	1.0	—	—	—	—	—	—	

Notes:

(1) Utilisation rate = utilised capacity ÷ designed capacity.

(2) The project's utilisation rate was below 50% for the year ended 31 December 2014 primarily because there was insufficient incoming raw water, being supplied from a mountain spring, due to the dry season which ran from May to August 2014.

(3) This facility was operating at over 100% capacity primarily because the demands for tap water increased significantly due to the rapid development of the service area and the incoming raw water, which was mountain spring, is purer than the designed specifications, which shortened the time required for treatment. As a result, this facility was able to treat a higher volume of raw water than the designed capacity. Such high utilisation rate conformed with the industry standard as prescribed in the Code for Design of Outdoor Water Supply Engineering (GB50013-2006). We have entered into an agreement with the local government to construct an additional facility. The designed daily capacity of such additional facility is 20,000 tonnes. For details of such additional facility, see "Business — Planned Projects — Other Projects — BOT and BOO Projects".

- (4) The project ran at a utilisation rate of below 50% in 2012 and 2013 primarily because there was inadequate pipeline network to meet users' demand during these periods. The local government was responsible for the construction of the pipeline network. Its utilisation rate increased to 60% in 2014.
- No utilised capacity or utilisation rate is presented during the periods indicated as the projects had not yet been acquired by us or were under construction or in trial operation.

Raw water supply

As at the Latest Practicable Date, we had one BOT raw water supply project, which was the Emin (Bingdi, Liaoyang) Industrial Park Water Supply Works (Phase I) Project located in Xinjiang. We commenced construction of this project prior to the completion of its relevant environmental impact assessment. As advised by our PRC legal adviser, such act constituted a non-compliance under the Environmental Impact Assessment Law of the PRC (《中華人民共和國環境影響評價法》). See “Business — Non-compliance”. We expect to commence commercial operation of this project in 2017. The storage capacity of this project is expected to be approximately 32.5 million cubic meters. This project is expected to supply 40.6 million cubic meters of water per year to the Emin (Bingdi, Liaoyang) Industrial Park (額敏(兵地、遼陽)工業園區) and 10.7 million cubic meters of irrigation water per year to the local irrigated area. The raw water will first be supplied to the industrial park, with the remaining portion to be supplied for irrigation purposes. The details of our raw water supply project are set out below:

No.	Project	Project Company	Date of Signing		Commencement		Guaranteed		Actual Unit Price	Commencement Date of Construction	Expected Commencement		Investment Amount ⁽¹⁾	Investment Payback Period ⁽²⁾	Commencement Date of Consolidation with our Group's Financial Statements
			Project	Concession Agreement	Concession Period	Date of Concession	Designed Capacity	Minimum Supply Volume			Estimated Date of Completion of Construction	Date of Commercial Operation			
					(years)		(10,000 tonnes/day)	(tonnes/day)	(RMB/tonne)				(RMB million)	(years)	
Xinjiang															
<u>Under Construction</u>															
1	Emin (Bingdi, Liaoyang) Industrial Park Water Supply Works (Phase I) Project	Emin Water	April 2013		30	December 2013	10.6	5,500 for the 1st year; 7,000 for the 2nd year; 8,000 for the 3rd year	3.8 for the 1st year, 3.4 for the 2nd year, 3 from the 3rd year till the end of the concession period	N/A	October 2013	December 2016 2017 ⁽³⁾	February 2017 ⁽³⁾	400.0	8 April 2013

Notes:

- (1) Investment amount = direct construction costs + design, supervision and other indirect costs + reserve funds and initial working capital.
- (2) Investment payback period represents the period when the investment amount is fully recovered by the expected accumulated net cash inflow.
- (3) The actual commencement date of commercial operation of the project under construction may be different from the estimated commencement date of commercial operation. The timing of the commencement of commercial operation is subject to various conditions which are not under our control, such as the completion of construction of pipeline network by the local government and governmental approval procedures.

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Average investment payback period

The average investment payback period for our wastewater treatment projects under BOT/TOT or BOO/TOO models is 12 years from the date of commencement of construction or acquisition of such projects. The average investment payback period for our water supply projects under BOT/TOT or BOO models is six years from the date of commencement of construction or acquisition of such projects. The average investment payback period for our water supply projects is relatively shorter primarily because our water supply tariffs and the utilisation rates of our water supply projects are usually higher than that of our wastewater treatment projects. The principal assumptions we make when calculating the investment payback periods for our wastewater treatment and water supply projects under construction or in operation relate to the specific investment amounts, unit prices, volumes of treated wastewater or supplied water and operation costs of such projects. In particular, we assumed (i) that wastewater treatment and water supply tariffs will increase by 10% every three years or will increase according to the terms of our concession agreements, where applicable; (ii) that our operation costs will increase 3% every year according to our projections of the future changes in commodity price levels in the PRC; (iii) that guaranteed minimum volumes for our projects will increase gradually according to the terms of the concession agreements until the projects are running at full capacity, or when there is no guaranteed minimum volume agreed upon, that our wastewater treatment facilities will be operated at a utilisation rate of 60% and our water supply facilities will be operated at a utilisation rate of 65% to 70%; and (iv) that the actual construction or acquisition costs of our projects will not materially deviate from the expected amounts stated in the feasibility reports or draft acquisition agreements. See “Business — Concession Projects — Key Terms of Concession Agreements” for the details of the terms of our concession agreements.

Lack of concession agreements

During the Track Record Period, we did not enter into written concession agreements with the local governments of Yunnan⁽¹⁾ in respect of 19 BOO/TOO projects⁽²⁾. However, we derived revenue and/or received tariff payments from such concession projects during the Track Record Period as though written concession agreements were in place from the beginning of the concession period. In October 2014, we entered into written concession agreements with the local governments in Yunnan in respect of the 19 projects, which confirmed that we have obtained the concession rights to operate the water facilities from their respective commencement dates of operation.⁽³⁾

Notes:

- (1) The local governments include Dali Municipal People’s Government, Jinghong Municipal People’s Government, Mengla County People’s Government and Lushui County People’s Government.
- (2) Includes the Gantong Water Supply Plant which we disposed of in March 2015. See “History, Reorganisation and Corporate Structure”.
- (3) From June to August 2014, we also obtained written confirmations from the local governments in Yunnan confirming that we have obtained the concession rights to operate the water facilities from their respective commencement dates of operation.

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Our PRC legal adviser is of the view that, based on the Tender Measures, (i) the above concession agreements are legal, valid and binding and the concession rights took effect from their respective commencement dates of operation; (ii) failure to enter into written concession agreements did not result in any non-compliance with respect to our operations, because the Tender Measures provide that for any concession projects for which the contracting parties fail to enter into written concession agreements, rectification can be made by entering into written concession agreements in a timely manner, but no deadline is specified; (iii) we entered into written concession agreements with the local governments in a timely manner, which was immediately after we have obtained their consent to do so; (iv) we will not be subject to any penalty for subsequently entering into written concession agreements as a rectification measure; and (v) the confirmations were issued by, and the written concession agreements were entered into with, the competent city or county-level government authorities, which are not subject to challenge or revocation by the provincial or higher-level government authorities. The Yunnan Province Urban Construction Administration Rules (Revised in 2006) stipulate that the local governments are competent authorities to grant concession rights.

Our Directors are of the view that the failure to enter into concession agreements for a portion of our concession projects historically did not have a material adverse effect on our results of operations or financial condition during the Track Record Period.

Reasons for the lack of concession agreements

Among the 19 concession projects without written concession agreements during the Track Record Period, 15 of them were owned by Yunnan Province Water prior to being injected into the predecessor of our Company as a capital contribution in 2011 and four of them were owned by the designees of the local governments prior to our acquisitions in 2012 and 2014. Although there had been no written concession agreements, it was understood by both Yunnan Province Water (a state-owned enterprise) and the designees on one hand, and the local governments in Yunnan on the other, that Yunnan Province Water and the designees owned the concession rights to operate the concession projects and had the right to receive the wastewater treatment or water supply tariff payments from the users or the local governments in Yunnan. After the injection or acquisition, our Company continued this established conduct and recorded revenue and received tariff payments from the users or the local governments in Yunnan during the Track Record Period.

During the Track Record Period, we requested the local governments in Yunnan to formalise our concession rights by entering into written concession agreements with us. However, no written concession agreements were signed until October 2014, primarily because: (i) the local governments were of the view that their failure to enter into written concession agreements with us prior to the commencement of a concession period was not a non-compliance incident; and (ii) the local governments were of the view that written concession agreements were not necessary because there had always been a mutual understanding between the project companies and the local governments that (a) the local governments had granted the relevant project companies the concession rights to operate the 19 concession projects; (b) the 19 concession projects were to be operated under a BOO project model; (c) water supply tariffs were to be billed to users based on the unit prices

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published and approved by the relevant government authorities from time to time; and (d) the project companies had been granted the relevant operation permits such as water intake permits and wastewater discharge permits. After the injection or acquisition of the 19 concession projects, we consolidated the financial results of these projects and recognised our revenue based on the total tariff, which is calculated as unit price times the actual volume of water supplied.

As advised by our PRC legal adviser, even though we had not entered into concession agreements with respect to the 19 projects prior to the commencement of the relevant concession period, our operation of the 19 concession projects was legal and valid because: (i) the concession periods stipulated under the 19 concession agreements date back to the commencement of operation of such concession projects; and (ii) we obtained written confirmations from the local governments in Yunnan confirming that we have possessed the concession rights to operate the 19 concession projects since their respective dates of commencement of operation.

Based on the foregoing, we and the Sole Sponsor are of the view that the revenue and profit generated from these projects before entering into the 19 concession agreements during the Track Record Period should be counted for the purpose of the profit test requirements under Rule 8.05(1)(a) of the Listing Rules.

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Unaudited financial figures

Set out below are the 19 projects and their respective unaudited revenue and gross profit for the years ended 31 December 2012, 2013 and 2014 based on our management accounts:

		For the years ended 31 December					
Project company	Project	2012		2013		2014	
		Revenue	Gross profit	Revenue	Gross profit	Revenue	Gross profit
		(RMB million)					
Dali Water ⁽¹⁾	Dali Wastewater Treatment Plant	15.5	3.9	26.9	14.1	28.0	16.6
	Wastewater Plant Phase II	nil ⁽²⁾	nil ⁽²⁾	nil ⁽²⁾	nil ⁽²⁾	nil ⁽²⁾	nil ⁽²⁾
	Water Plant I Expansion Project	nil ⁽²⁾	nil ⁽²⁾	nil ⁽²⁾	nil ⁽²⁾	nil ⁽²⁾	nil ⁽²⁾
	Water Plant II Phase II	nil ⁽²⁾	nil ⁽²⁾	nil ⁽²⁾	nil ⁽²⁾	nil ⁽²⁾	nil ⁽²⁾
	Water Plant I	20.6	9.3	15.3	5.4	19.0	4.5
	Water Plant II	16.6	7.5	19.6	6.9	21.9	5.2
	Water Plant III	3.7	1.7	3.9	1.4	4.7	1.1
	Water Plant V	9.3	4.2	6.2	2.2	5.5	1.3
	Gantong Water Supply Plant ⁽³⁾	1.4	0.6	0.9	0.3	0.3	0.1
	Water Plant VI (Haidong) (Phase I)	nil ⁽²⁾	nil ⁽²⁾	nil ⁽²⁾	nil ⁽²⁾	nil ⁽²⁾	nil ⁽²⁾
	Subtotal:	67.2	27.2	72.9	30.2	79.4	28.8
Jinghong Water ⁽¹⁾	Jiangbei Tap Water Supply Plant	16.7	9.2	18.9	12.0	21.1	12.4
	Jiangnan Tap Water Supply Plant	30.7	18.6	29.6	17.2	33.5	19.7
	Jiangnan Wastewater Treatment Plant	12.3	4.2	13.8	3.0	13.5	1.9
	Jiangnan Wastewater Treatment Plant Phase II	nil ⁽²⁾	nil ⁽²⁾	nil ⁽²⁾	nil ⁽²⁾	nil ⁽²⁾	nil ⁽²⁾
	Subtotal:	59.7	32.0	62.3	32.2	68.1	34.0
Mengpeng Water	Mengpeng Shuntong Tap Water Supply Plant	0.9	0.2	1.1	0.2	1.4	0.5
	Subtotal:	0.9	0.2	1.1	0.2	1.4	0.5
Mengla Water ⁽¹⁾	Mengla Water Supply Plant	nil ⁽²⁾	nil ⁽²⁾	5.2	2.0	8.0	4.1
	Mengla Wastewater Treatment Plant	nil ⁽²⁾	nil ⁽²⁾	nil ⁽²⁾	nil ⁽²⁾	nil ⁽²⁾	nil ⁽²⁾
	Subtotal:	nil	nil	5.2	2.0	8.0	4.1
Liuku Water ⁽¹⁾	Liuku Water Supply Plant I	nil ⁽²⁾	nil ⁽²⁾	nil ⁽²⁾	nil ⁽²⁾	7.2	4.4
	Liuku Water Supply Plant II	nil ⁽²⁾	nil ⁽²⁾	nil ⁽²⁾	nil ⁽²⁾	nil ⁽²⁾	nil ⁽²⁾
	Subtotal:	nil	nil	nil	nil	7.2	4.4
Total:		127.8	59.4	141.5	64.6	164.1	71.8
% to our revenue/gross profit		32.0%	42.4%	20.5%	24.8%	14.9%	21.5%

Notes:

- (1) Each of these project companies, namely Dali Water, Jinghong Water, Mengla Water and Liuku Water, owns more than one project. As a result, the respective revenues and gross profits of each of the projects owned by these project companies disclosed above have not been audited and are not directly extracted from their respective management accounts, but are based on an estimate made by our Directors. In estimating such revenues and gross profits, our Directors relied on the amount of tap water or wastewater discharged by each of these projects relative to the total amount of tap water or wastewater discharged by the relevant project companies.

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- (2) As some projects were not in operation during the whole or part of the Track Record Period, we did not record revenue and gross profit of these projects for such period of time.
- (3) In March 2015, we disposed of the Gantong Water Supply Plant. See “Summary — Recent Developments” and “History, Reorganisation and Corporate Structure”.

Specific internal control measures

Based on the recommendations of BDO, our internal control consultant, we implemented the following specific internal control measures relating to the signing of our concession agreements for our concession projects:

1. In January 2015, we established a compliance committee (the “**Compliance Committee**”) which reports directly to our Board. The Compliance Committee is authorised by our Board to conduct independent research and make decisions on compliance matters with respect to our business operations. It comprises the following five members, namely, Mr. Yu Long (executive Director and general manager of our Company), Mr. Kwok For Chi (independent non-executive Director), Mr. Hu Song (independent non-executive Director), Mr. Ren Gangfeng (independent non-executive Director) and Ms. Yang Chuanyun (Supervisor), each of whom has over five years of related work experience.

Only new projects approved by the Compliance Committee are eligible for submission to our Board for further discussion and consideration. The Compliance Committee will veto and reject any new projects with material non-compliance issues. We believe this will allow the Compliance Committee to effectively prevent future occurrences of any material non-compliance including, but not limited to, construction/operation of our concession projects at the request of local governments prior to completing the relevant environmental impact assessments or obtaining the relevant land use right certificates, building ownership certificates, construction land planning permits, construction planning permits or construction work commencement permits.

The Compliance Committee is responsible for compiling reports regarding such material non-compliance issues. Such reports are submitted by the Compliance Committee to our Board for their record. The Compliance Committee is also responsible for overseeing the implementation of internal control measures relating to our concession agreements and compiling reports or proposals regarding our compliance with such internal control measures. Such reports or proposals are submitted by the Compliance Committee to our Board for their consideration and record. A regular review meeting is held every six months and a special meeting is held every quarter by the members of the Compliance Committee. Ad hoc meetings may be held as needed. After each of these meetings, the reports or proposals mentioned above are submitted to the Board immediately. Our Company’s legal department assists the Compliance Committee in overseeing the implementation of the internal control measures and ensures compliance on a continuous basis.

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2. We established a contract management system in July 2014. Under such system, our business department is responsible for the negotiation and drafting of relevant contracts with respect to any significant transactions we decide to enter into. For our concession agreements projects, the investment and development department is responsible for the negotiation and drafting of the relevant concession agreements. Before submitting to general manager/Chairman for approval and signing, a concession agreement needs to be reviewed and approved by the managers of the operation and management department, the project management department, the finance department and the legal department. The investment and development department then collects the relevant agreements for record and inspection.
3. The manager of the legal department is responsible for inspecting various certificates and licenses required for our business operations according to the requirements of the Compliance Committee, and reports the inspection results to our Board/ management. The manager of the legal department needs to ensure that such compliance inspection of certificates and licenses is conducted at least once a year. The manager of the legal department is Ms. Yang Chuanyun (楊川雲). For the details of Ms. Yang's relevant working experience, see "Directors, Supervisors and Senior Management — Supervisory Committee".
4. Under the supervision of the manager of the finance department, the cashier of the finance department is responsible for conducting a stock take of our intangible assets at the end of each year and verify the ownership and other legal documents for the assets. Any deficiency in legal documents will be investigated and the relevant department will be notified and requested to provide the relevant documents. We will cease to use any assets which are not supported by complete legal documents until all legal documents have been obtained, in order to mitigate any related risks.
5. We have engaged Jia Yuan Law Offices as external PRC legal adviser since October 2013 to provide assistance on any legal and compliance matters relating to our concession agreements.
6. The internal review department is responsible for conducting an annual inspection regarding compliance with the above measures. The inspection is part of the internal review work, or a joint inspection will be conducted with the legal department, as appropriate and the results will be reported to our Board.

The above measures are equally applicable to the management and control of any companies/projects to be developed by us or acquired by us during the due diligence process, in particular the concession agreements, and the post-development and post-acquisition operation process, to ensure the operation of any companies/projects to be developed by us or acquired by us are in compliance with our internal control standards and the relevant PRC laws and regulations.

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BDO performed an initial review on the above internal control measures (except for the establishment of the Compliance Committee) in August 2014 and follow-up reviews from September to October 2014. BDO performed an initial review on the establishment of the Compliance Committee at the end of January 2015. Based on these reviews, BDO is of the view that, as at the Latest Practicable Date, adequate internal control measures had been put in place.

Our Directors are of the view that the above internal control measures relating to the signing of our concession agreements for our concession projects, which were implemented based on the recommendations of BDO, are adequate and effective.

CONSTRUCTION AND EQUIPMENT SALES

Our construction and equipment sales segment includes BT projects, EPC projects and equipment sales.

BT Projects

Under a BT project, we usually sign a BT agreement with our customers. Under the BT agreements, we render construction services and finance the construction of the proposed facilities. We usually retain design institutes and independent contractors to undertake the design and construction work. A BT project is not a concession project, as we are not granted any concession right to operate the facilities. When we complete the construction of the facilities, we transfer the facilities to our customers to operate the facilities and discuss with them to determine the final repurchase amount according to the terms of BT agreement. Such practice of agreeing on the final repurchase fees upon completion of construction of a BT project is an industry norm.

Our BT agreements generally stipulate a formula for determining the repurchase fees, which normally include the variable construction costs and a fixed percentage for interest and investment gains. Both the interest and investment gains are calculated based on the construction costs. The repurchase fees are subject to an examination and audit by an independent cost consultant jointly appointed by our customer and us. See “Risk Factors — Risks Relating to Our Business and Industry — Failure to reach an agreement with our customers on an amount of fees or any significant delay in payment by our customers may lead to lower profitability or losses on our BT projects”. During the Track Record Period, we were not involved in any disputes with our customers with respect to repurchase fees. We bill the repurchase fees by instalment during the repurchase period according to the BT agreements. Before we receive full payment of the repurchase fees, we normally retain ownership of the facilities.

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The construction of the Yanjin Municipal Wastewater Treatment Project was completed in 2010 and the repurchase period commenced in 2012. According to our accounting policy, we recognise revenue according to the percentage of completion method. See “Financial Information — Critical Accounting Policies, Estimates and Judgements — Percentage of completion of construction and service contracts”. As a result, there was no revenue recognised from the Yanjin Municipal Wastewater Treatment Project in 2012 and 2013 as the construction had already been completed. In 2012 and 2013, we did not recognise revenue for our BT business as we did not undertake any other BT projects during those years. In 2014, we undertook two BT projects, from which we recognised revenue of RMB206.5 million with gross profit of RMB20.3 million. The details of our BT projects are set out below:

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No.	Business Type	Project		Status	Location	Construction Period (months)	Fees	Repurchase Period ⁽⁴⁾ (months)	Designed Capacity (tonnes/day)	Water Quality Required	Date of		Investment Amount ⁽⁵⁾ (RMB million)
		Project	Company								Commencement of Construction	Completion of Construction	
1	Municipal Waste Disposal	Yanjin Municipal Wastewater Treatment Project ⁽¹⁾	Yanjin Water	Constructed	Yanjin County, Yunnan	10	Construction cost + interests ⁽²⁾ + investment gains ⁽³⁾	60	70	N/A	February 2010	December 2010	42.0
2	Wastewater Treatment	Dali Wastewater Collection and Treatment Systems for 100 Villages (72 plants) ⁽⁶⁾	Dali Water	Under construction	Dali City, Yunnan	11	Construction cost + fund cost ⁽⁷⁾ + construction management fee ⁽⁸⁾	48	5,000	N/A	August 2014	June 2015 (expected) ⁽⁹⁾	330.9
3	Wastewater Treatment	Mangyong River Project ⁽⁶⁾⁽¹⁰⁾	Dali Water	Under construction	Dali City, Yunnan	10	Construction cost + fund cost ⁽¹¹⁾ + construction management fee ⁽⁸⁾	48	N/A	N/A	September 2014	June 2015 (expected) ⁽⁹⁾	30.4

Notes:

- (1) We obtained the project through a capital contribution by Yunnan Province Water.
- (2) Interests = (construction cost - subsidies) x current loan rate of commercial banks.
- (3) Investment gains = subsidies x 50% x 2% + (construction cost - subsidies) x 3%.
- (4) The customer of the BT project is a local government. The repurchase period is set with reference to the local government's budget. In evaluating a BT project, we take into account the length of the repurchase period before we undertake the project.
- (5) Investment amount = direct construction costs + indirect construction costs + reserve funds and loan interests.
- (6) The project is an entrusted construction project, which is carried out in the same way as a typical BT project except that we are not the owner of the project during the construction and repurchase periods. According to the entrusted construction agreement, we reserve the right to dispose of the facilities for compensation if the local government defaults in payment.
- (7) Fund cost = (construction cost - subsidies) x (current loan rate of commercial banks x (1+Y)+3%), where Y is to be determined by both parties based on relevant PRC Laws and regulations.
- (8) Construction management fee = construction cost x 3%.
- (9) The date of completion of construction is different from the date of completion of the acceptance inspection by the local government, after which the repurchase period commences. The timing of the completion of the acceptance inspection by the local government is subject to various conditions which are not under our control, such as the completion of testing and acceptance by local governments and local governmental approval procedures.
- (10) The project comprises the construction of wastewater treatment facilities and the ancillary facilities to treat river water of Mangyong River in Dali. The treated river water will flow to Er Hai Lake.
- (11) Fund cost = actual investment x (current loan rate of commercial banks x (1+Y)+3%), where Y is to be determined by both parties based on relevant PRC Laws and regulations.

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EPC and Equipment Sales

During the Track Record, approximately 16.7%, 26.9%, and 23.9% of our revenue, respectively, was derived from our EPC and equipment sales businesses.

EPC

In our EPC projects, we act as the contractor to undertake the design, procurement, engineering and construction work of third-party owned wastewater treatment facilities. Our EPC business does not require us to make significant capital investments in the construction of these projects. We partially fund these projects from the advanced payments we receive from our customer, which amounts to at least 25% of the total contract sum. Unlike our BT projects, we do not own the facilities and are not required to transfer the facilities to the local governments upon completion. As at the Latest Practicable Date, we had engaged in three EPC wastewater treatment projects, of which two had been constructed in 2014 and one was under construction but is expected to be completed by July 2015. The total contract amount of the three EPC wastewater treatment projects was RMB5.14 million and the total constructed capacity was around 1,700 tonnes/day. The three EPC projects use MBR technology and the standard of treated wastewater was Class I Standard A (GB18918-2002). We did not engage in any EPC water supply projects during the Track Record Period.

Under the EPC agreements, we usually are responsible for the design and construction of the wastewater treatment facilities and procurement and installation of equipment. We ensure that the design and construction are in compliance with the relevant technical and regulatory requirements and that the equipment has received the necessary quality certification. In consideration for such services, we bill construction fees to our customers in instalments according to the percentage of completion. We usually ask our customers for an advanced payment of at least 25% of the total amount. The final payment is made upon completion of the construction and acceptance of our EPC projects and completion of trial operation. Our customers usually settle our bills within one month. Under the agreements, we also provide a warranty of six to 12 months after completion of construction and acceptance of our EPC projects. During the Track Record Period and up to the Latest Practicable Date, no significant quality problem had occurred in relation to our EPC projects during the warranty period.

Equipment sales

We produce, sell and install equipment for wastewater treatment, water supply and waste disposal facilities. When the equipment we sell to our sub-contractors is used in the construction of our own projects, the sales price of our equipment is determined based on the prevailing market price of such equipment and our equipment sales revenue is eliminated against the contract costs in progress upon consolidation of our financial statements. Save for such elimination treatment, our accounting treatments and payment terms applied to our equipment sales to these sub-contractors for the construction of our own projects are the same as those applied in our equipment sales to them for the construction of third party projects. During the Track Record Period, we procured parts and equipment mainly from Beijing

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OriginWater and provided our customers with the core technology engineering and system integration services with respect to such water equipment. For the years ended 31 December 2012, 2013 and 2014, our purchases from Beijing OriginWater were RMB0.5 million, RMB71.3 million and RMB3.4 million, respectively.

Our main customers are the contractors undertaking the construction work for our wastewater treatment and tap water supply projects as well as contractors undertaking construction work for third parties. We usually enter into equipment purchase agreements with our customers. According to the equipment sales agreements, we are responsible for delivering the equipment to the designated places and handling the acceptance procedures. We generally provide a warranty period from one to two years and our service and maintenance team follows up with the operational and servicing aspects of the equipment during the warranty period.

In the cases that we only provide equipment to our customers, we bill our customers for the equipment fees upon delivery of our equipment and our customers usually settle our bills within one month upon delivery of our equipment. In other cases where we provide equipment as well as system integration services, which mainly include equipment installation and commissioning services, to our customers who undertake construction projects, we bill our customers by instalments usually after the delivery of our equipment and the completion of construction projects. However, our customers generally settle our fees after they receive their construction fees from the owners of the construction projects. Such owners generally pay construction fees to our customers after the amount of construction costs are finalised upon completion of construction. See “Financial Information — Capital and Liquidity Resources — Trade and other receivables”.

According to our discussions with the project owners of the Huoerguosi and Luntai projects in Xinjiang, we expect that we will be engaged to provide water equipment for these projects in 2015. We expect that the revenue from our equipment sales in 2015 will be mainly attributable to the expected sales derived from these projects. The Huoerguosi project comprises the construction of two wastewater treatment plants through two sub-projects, which are the Huoerguosi Port Wastewater Treatment Plant Expansion Project (“**Huoerguosi Project I**”) and the Kuerle Textile and Garments Market Wastewater Treatment and Reclamation Project (“**Huoerguosi Project II**”). The designed daily treatment capacity of Huoerguosi Project I is expected to be 25,000 tonnes and construction and operation are expected to commence in the first half of 2015 and in March 2016, respectively. The designed daily treatment capacity of Huoerguosi Project II is expected to be 50,000 tonnes and construction and operation are expected to commence in the first half of 2015 and in May 2016, respectively. The Luntai project comprises the construction of a wastewater treatment plant in the Luntai Layisu Industrial Park. The designed daily treatment capacity of the Luntai project is expected to be 50,000 tonnes and it is expected to commence construction in the first half of 2015 and commence operation in June 2016. As at the Latest Practicable Date, no contract had been signed with respect to the expected equipment sales for the Huoerguosi and Luntai projects.

Membrane Production Plant

To develop our manufacturing capabilities, we established the Membrane Production Plant, which commenced trial operation in November 2014 and is expected to commence commercial operation in July 2015, subject to the completion of government procedures to issue the required licences to us for commencement of commercial operation. During the trial operation period, we are permitted to manufacture membrane products for testing use but are not legally permitted to sell membrane products to external parties. The Membrane Production Plant is located in the Kunming High-tech Industrial Development Zone and covers an area of approximately 10 acres. There are five advanced “three-in-one” PVDF hollow fibre membrane (中空纖維膜生產線) production lines, which can produce three kinds of hollow fibre membranes, namely ultrafiltration membrane, lining microfiltration membrane and interlayer microfiltration membrane. The designed annual production capacity of the Membrane Production Plant comprises 500,000 square meters of ultrafiltration membrane, 700,000 square meters of interlayer microfiltration membrane, 400,000 square meters of lining microfiltration membrane, 7,000 pieces of ultrafiltration membrane components, 12,000 pieces of interlayer microfiltration curtain membrane components, 22,000 pieces of lining microfiltration curtain membrane components. We believe that the designed capacity of the Membrane Production Plant is able to meet the expected internal demand of our concession projects and to a lesser extent, the expected external demand of our own EPC and equipment sales business for at least the next five years.

Membranes, which are advanced filtration materials, are used in wastewater treatment and water supply facilities to enhance the efficiency and quality of treatment in order to control and ensure the quality of the wastewater effluent and the supplied tap water. When we use membranes in our wastewater treatment facilities, our wastewater treatment efficiency can be significantly increased, which allows our wastewater effluent to be used as reclaimed wastewater. When we use membranes in our water supply facilities, the quality of our supplied tap water is able to exceed the National Drinking Water Standard (GB5749-2006).

In the PRC, there are only a few domestic enterprises able to manufacture membranes based on independent research and development such as our second largest Controlling Shareholder, Beijing OriginWater. We believe our membrane products and application technologies have significant competitive advantages. By manufacturing the membranes ourselves, we are able to ensure that the quality and performance of our membrane products are comparable with those of imported products used by our competitors while maintaining the costs of production of our membrane products at lower levels than those of imported products. Since membranes are not extensively used in wastewater treatment and water supply facilities in the PRC and that membranes are able to achieve higher purification levels, we believe that our membrane manufacturing business will be one of our future growth drivers in the near and medium term.

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As at the Latest Practicable Date, we had submitted applications to register five patents for technologies relating to membrane manufacturing and application. These applications were under review by the SIPO. See “Business — Intellectual Property”. We also obtained an irrevocable license from Beijing OriginWater to exclusively use and commercialise one patented technology relating to membrane application on a royalty-free basis. See “Connected Transactions”.

OTHERS

We undertake O&M projects for third-party owned wastewater treatment, tap water supply and municipal waste disposal facilities. For the years ended 31 December 2012, 2013 and 2014, revenue generated from O&M was not significant, totalling RMB1.4 million, RMB3.9 million, and RMB31.0 million, respectively, and representing 0.4%, 0.6% and 2.8% of our revenue, respectively. Our O&M business grew significantly in the year ended 31 December 2014 as compared to prior periods because we acquired Guoqing Environmental, a company that also engages in O&M wastewater treatment projects, in September 2013, and its results of operations were consolidated with ours since then resulting in our increased revenue for the year ended 31 December 2014. See “Financial Information — Period to Period Comparison of Results of Operations”.

O&M Wastewater Treatment and Tap Water Supply Projects

We operate and maintain 21 third-party owned wastewater treatment facilities and one third-party owned tap water supply facilities, with the total designed treatment capacity of 198,500 tonnes per day and 5,000 tonnes per day, respectively. Depending on the terms of our O&M agreements, we issue monthly or quarterly bills to our customers. Our customers usually settle our bills within one month. We are usually appointed for a pre-determined period and may be reappointed upon the expiry of the period. During the period of our appointment, we bear the costs for repair and maintenance of the facilities. We are not required to make capital investments under our O&M contract arrangements.

No.	Name of Project	Name of Project Operator	Duration (years)	Date of Commencement of O&M Service	Management fees (RMB)	Payment Terms	Design Capacity (tonnes/day)
Yunnan							
<i>Wastewater Treatment</i>							
1	Binchuan Wastewater Treatment Plant	Our Company	10	August 2014	0.65/tonne	Quarterly	10,000
2	Chenggong Industrial Zone Wastewater Treatment Plant ⁽²⁾	Guoqing Environmental	1	April 2014	87,500/month	Monthly	5,000
3	Chengjiang Wastewater Treatment Plant ⁽³⁾	Guoqing Environmental	10	July 2008	105,000/month	Monthly	10,000
4	Daguan Wastewater Treatment Plant ⁽¹⁾	Our Company	5	August 2014	72,000/month for the first year; 96,000/month for the second year; 114,000/month for the third year; starting from the fourth year, the unit price shall be subject to negotiations between both parties.	Quarterly	4,000
5	Hekou Yao Autonomous County Wastewater Treatment Plant ⁽²⁾	Guoqing Environmental	Subject to negotiation ⁽⁴⁾	August 2013	0.6115/tonne	Monthly	10,000
6	Honghe Wastewater Treatment Plant ⁽²⁾	Guoqing Environmental	1 ⁽⁵⁾	May 2014	91,660/month	Monthly	5,000
7	Jinping Wastewater Treatment Plant ⁽²⁾	Guoqing Environmental	Subject to negotiation ⁽⁴⁾	May 2013	0.65/tonne	Monthly	8,000
8	Longling Wastewater Treatment Plant	Our Company	10	September 2012	0.6/tonne	Monthly	10,000
9	Luoping Wastewater Treatment Plant	Guoqing Environmental	3	January 2014	170,000/month	Monthly	25,000
10	Lvchun Wastewater Treatment Plant ⁽²⁾	Guoqing Environmental	Subject to negotiation ⁽⁴⁾	April 2014	79,800/month	Monthly	5,000
11	Mangshi Wastewater Treatment Plant ⁽²⁾	Guoqing Environmental	10	November 2008	Stage I: 50,000/month Stage II: 0.42/tonne	Monthly	15,000
12	Mouding Wastewater Treatment Plant	Our Company	20	August 2012	70% of wastewater treatment tariff	Monthly	12,000
13	Nanhua Wastewater Treatment Plant	Our Company	2	December 2014	400,000/quarter	Quarterly	15,000
14	Pingbian Miao Autonomous County Wastewater Treatment Plant ⁽²⁾	Guoqing Environmental	No specific term, and subject to negotiation between the customer and us	November 2011	80,500/month	Monthly	6,000
15	Shiping Wastewater Treatment Plant ⁽²⁾	Guoqing Environmental	1	August 2014	219,000/month	Monthly	10,000
16	Yangbi Wastewater Treatment Plant	Our Company	15	September 2013	30,000/month	Monthly	5,000
17	Yongde Wastewater Treatment Plant	Gengma Water	2	June 2014	87,500/month	Monthly	6,000

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No.	Name of Project	Name of Project Operator	Duration (years)	Date of Commencement of O&M Service	Management fees (RMB)	Payment Terms	Design Capacity (tonnes/day)
18	Yongshan Wastewater Treatment Plant	Our Company	5	July 2013	0-3,000 tonnes/day; RMB80,000/month; 3,000-5,000 tonnes/day: RMB100,000/month; 5,000-6,000 tonnes/day: RMB110,000/month; 6,000-7,000 tonnes/day: RMB120,000/month; 7,000-8,000 tonnes/day: RMB130,000/month; 8,000-9,000 tonnes/day: RMB140,000/month; 9,000-10,000 tonnes/day: RMB150,000/month.	Quarterly	10,000
19	Yuanmou Wastewater Treatment Plant	Guoqing Environmental	10	September 2012	0-5,000 tonnes/day: 86,000/month; 5,000-7,500 tonnes/day: 0.4/tonne; 75,000-10,000 tonnes/day: 0.32/tonne; 10,000-15,000 tonnes/day: 0.25/tonne. 374,664/quarter	Monthly	15,000
20	Yuanyang Wastewater Treatment Plant ⁽²⁾	Guoqing Environmental	1 ⁽⁵⁾	January 2015	0-3,000 tonnes/day: RMB87,500/month;	Quarterly	5,000
21	Zhenkang Wastewater Treatment Plant	Gengma Water	5	December 2013	3,000-3,500 tonnes/day: RMB110,000/month; 3,500-4,500 tonnes/day: RMB120,000/month; 4,500-5,500 tonnes/day: RMB130,000/month; 5,500-6,500 tonnes/day: RMB140,000/month; 6,500-7,500 tonnes/day: RMB150,000/month;	Quarterly	7,500
<i>Water Supply</i>							
22	Longquan Tap Water Supply Plant ⁽¹⁾	Dali Water	10	January 2006	2.4/tonne ⁽⁶⁾	Monthly	5,000

Notes:

- (1) We obtained the project through the asset contribution by Yunnan Province Water.
- (2) We obtained the project through the acquisition of Guoqing Environmental in October 2013.
- (3) We obtained the project through the acquisition of Guoqing Environmental in October 2013. Jinning Water is a subsidiary of Guoqing Environmental.
- (4) We currently operate the facilities under the O&M project model. However, we intend to obtain the concession rights of the relevant facilities under the TOT or TOO project model in the future, which is subject to our further negotiations with the local governments. The relevant O&M contracts will be terminated automatically when concession agreements are entered into.
- (5) We currently operate the facility under the O&M project model with a contract term of one year. We intend to obtain the concession rights of the relevant facility under the TOT or TOO project model in the future, which is subject to our further negotiations with the local governments. If we enter into a concession agreement with the local government before the expiration of the O&M contract term, the relevant O&M contract will be terminated automatically when a concession agreement is entered into.
- (6) In this project, we are required to pay the local government water resources fees at a unit price of RMB0.7/tonne and entitled to charge to users tap water tariffs based on the prescribed unit price of RMB2.4/tonne.

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O&M Municipal Waste Disposal Project

During the Track Record Period, We operated a third-party owned municipal waste disposal facility through our subsidiary, Yuxi Clean, the details of which are set out below:

No.	Name of Project	Name of Project Operator	Location	Date of Commencement of O&M Service	Duration (years)	Management fees (RMB/tonne)	Payment Terms	Designed Capacity (tonnes/day)
1	Yuxi Municipal Waste Landfill	Yuxi Clean ⁽¹⁾	Yuxi City, Yunnan	April 2011	6 (expected) ⁽²⁾	53	Monthly	400

Notes:

- (1) We obtained the project through the acquisition of Beijing Clean in January 2014.
- (2) We have obtained a waste incineration and power generation project in Yuxi City under a BOT project model according to the concession agreement and expect to commence construction in 2017. See “Business — Planned Projects — Water Reclamation and Waste Incineration and Power Generation Projects”. According to the O&M agreement, we operate and maintain this facility until the waste incineration and power generation facility commences construction.

PLANNED PROJECTS

Dianzhong Project

We intend to engage in a number of large-scale water projects proposed in the Dianzhong New Industrial Zone (滇中產業新區). The Dianzhong New Industrial Zone was established in 2013 according to the Determination on the Establishment of Dianzhong Industrial Zone (關於建設滇中產業聚集區(新區)的決定) promulgated by the Yunnan provincial government. The Dianzhong New Industrial Zone covers eight counties and cities in Yunnan with available land resource of 3,391 square kilometres. The Dianzhong New Industrial Zone is expected to be developed as a strategic new town in Yunnan. The gross domestic product of this area is expected to reach RMB150 billion in 2015 and RMB600 billion in 2020. The Dianzhong local government plans to develop a well-managed water resources conservation system, which will utilise underground water and increase the use of reclaimed wastewater, rainwater, and other non-traditional water resources.

According to the Yunnan Bridgehead Dianzhong Industrial Congregation Zone Development Plan (2014 - 2020) (雲南橋頭堡滇中產業聚集區發展規劃), the planned water projects include wastewater treatment projects, reclaimed wastewater supply projects, tap water supply projects and raw water supply projects. Based on the proposed town planning in Dianzhong, we believe that the water projects in Dianzhong will exceed the scale of our water projects owned by Dali Water in terms of the future projected revenue, daily treatment capacity and total investment amount. The revenue derived from Dali Water was RMB72.0 million,

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RMB91.0 million and RMB292.1 million, respectively, representing 18.1%, 13.2% and 26.5% of our revenue, respectively, for the years ended 31 December 2012, 2013 and 2014. As at the Latest Practicable Date, the designed daily capacity of the wastewater treatment and water supply of our water projects of Dali Water amounted to 0.3 million tonnes.

According to the proposal for the Dianzhong New Industrial Zone Haikou — Caopu Water Diversion and Water Environment Comprehensive Utilisation Project (the “**Haikou — Caopu Water Project**”) prepared by Yunnan Institute of Water & Hydropower Engineering Investigation, Design and Research and approved in January 2014, the Haikou — Caopu Water Project will comprise seven sub-projects, including two water storage projects, one water diversion project and four water conservation projects, to be constructed in the Anning district and Yimen district of the Dianzhong New Industrial Zone. The total investment amount of this project will be approximately RMB6.8 billion with a construction period of 42 months. As at the Latest Practicable Date, no sub-project of the Haikou — Caopu Water Project had commenced construction. We will actively explore opportunities to undertake suitable sub-projects of the Haikou — Caopu Water Project and other water projects in the Dianzhong New Industrial Zone in the future. According to relevant PRC laws and regulations, we are required to fund at least 20% of the investment in Dianzhong through our internal resources. See “Regulatory Environment — Capital Fund System”. We will fund the remaining through bank borrowings and/or proceeds from the issuance of corporate bonds.

We entered into a joint venture agreement with Yunnan Dianzhong Development Group Co. Ltd., Anning Water Investment Development Co. Ltd. and Songming Niulanjiang Investment Co. Ltd. in September 2014 to establish Dianzhong Water. Dianzhong Water was incorporated in September 2014. According to the joint venture agreement, we expect to contribute RMB400 million and own 80% of the equity interests of Dianzhong Water, while the other three investors expect to contribute RMB100 million in total and own 20% of the equity interests on an aggregate basis. We expect to complete the capital contribution by August 2016 in accordance with the project development progress of Dianzhong Water. As one of our subsidiaries, Dianzhong Water will serve as the investment and financing platform to undertake the construction and operation of water projects in the Dianzhong New Industrial Zone in the future. We will enter into separate agreements when we undertake a water project. As at the Latest Practicable Date, we had not entered into an agreement for any water project in the Dianzhong New Industrial Zone.

Dianchi Project

We entered into a BT agreement in August 2014 and two supplemental agreements in December 2014 and March 2015 with New Century Dianchi, our connected person, for the construction of a number of water related projects in the Kunming Dianchi International Exhibition Centre, which is a proposed exhibition centre together with supporting residential, commercial and tourism facilities located in Kunming. See “Connected Transactions”. The key terms of the Dianchi project are set out below:

- The Dianchi project comprises several sub-projects, including the construction of a tap water supply system, a wastewater treatment system, a reclaimed wastewater treatment system, a rainwater collection system and direct drinking water and other water related systems.
- The total investment is expected to be RMB300 million for the period from May 2015 to June 2017 subject to automatic renewal for an additional term of three years.
- New Century Dianchi will pay us the repurchase fees for each sub-project by instalment once we pass the preliminary acceptance inspection for each sub-project.
- The repurchase period is 36 months, during which time we will maintain ownership of each sub-project.
- We have the right to dispose of each sub-project and retain the proceeds for compensation if our customer is in default of payment.

In accordance with relevant PRC laws and regulations, we are required to fund at least 20% of the investment through our internal resources. See “Regulatory Environment — Capital Fund System”. We will fund the remaining through bank borrowings and/or proceeds from the issuance of corporate bonds. We entered into one separate investment agreement in October 2014 to construct water facilities for two areas of the Kunming Dianchi International Exhibition Centre with a total investment amount of RMB80.0 million. As at the Latest Practicable Date, we had not commenced the construction work. We will enter into separate agreement for the construction of water facilities in the other areas of Kunming Dianchi International Exhibition Centre.

Wastewater Reclamation and Waste Incineration and Power Generation Projects

We plan to upgrade our existing wastewater treatment facilities or construct new wastewater treatment facilities for the purpose of treating wastewater more intensively and supplying reclaimed wastewater. The purpose of water reclamation is sustainability and water conservation. With water reclamation technologies, our reclaimed wastewater can be used for irrigation, recharging groundwater aquifers and meeting commercial and industrial water needs. As at the Latest Practicable Date, we had not entered into any wastewater reclamation project.

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Leveraging on our experience in operating the Yuxi municipal waste disposal project, we intend to invest in and construct a waste incineration and power generation facility in Yuxi, adjacent to our Yuxi municipal waste disposal project. Waste incineration and power generation is the process of generating electricity from the incineration of solid waste. We obtained the Yuxi waste incineration and power generation project by going through a competitive negotiation process with the Yuxi local government. As advised by our PRC legal adviser, our acquisition of this project is in compliance with relevant PRC laws and regulations and the BOT agreement we entered into with the Yuxi local government is legal and valid. See “Business — Concession Projects — Project Management Process — Competitive negotiation or competitive tender”. In addition, we have obtained a confirmation letter issued by the Yunnan Housing and Urban-rural Development Department which confirms that both the concession agreement signed by the Yuxi local government and us and the relevant concession rights we obtained through such concession agreement are legal and valid. According to our PRC legal adviser and based on the Tender Measures, the Yunnan Housing and Urban-rural Development Department, as a higher authority than the Yuxi local government, is the competent authority to issue the confirmation and oversee the Yuxi local government which entered into the concession agreement with us. See “Regulatory Environment — Concession in Municipal Public Utilities Projects — Government Supervision”.

The concession period for this project is 25 years. Construction is expected to commence in July 2015 and be completed in December 2017. Commercial operation is expected to commence in January 2018. As part of this project, we will charge electricity fees and waste disposal fees. According to the relevant PRC laws and regulations, we have prepared a feasibility report for the Yuxi project which is subject to governmental approval. We expect that such approval will be obtained in June 2015, after which time the detailed construction work and operating arrangement will be finalised.

During the Track Record Period, we did not derive any revenue from the wastewater reclamation or the waste incineration and power generation project. As these are new sectors for us, our management will need to develop their experience in operating wastewater reclamation and waste incineration and power generation projects. See “Risk Factors — Risks Relating to Our Business and Industry — Our possible expansion into the municipal waste disposal, waste incineration and power generation, wastewater reclamation and chemical waste disposal businesses may not be successful”. To mitigate the risks, we will conduct detailed feasibility analysis and/or due diligence before we embark on such new business. However, we believe the supply of reclaimed wastewater and electricity from waste incineration and power generation project will provide additional income to us. In accordance with relevant PRC laws and regulations, we are required to fund at least 20% of the investment in the wastewater reclamation and waste incineration and power generation projects through our internal resources. See “Regulatory Environment — Capital Fund System”. We will fund the remaining through bank borrowings and/or proceeds from issuance of corporate bonds.

Other Projects

As at the Latest Practicable Date, in addition to the BT project for Kunming Dianchi International Exhibition Centre and the waste incineration and power generation BOT project

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in Yuxi, we had signed relevant concession agreements to undertake five tap water supply BOT projects and one tap water supply BOO project. In addition, we also entered into agreements with respect to three wastewater treatment, water supply and waste disposal BT projects (two of which are entrusted construction projects), with respect to which construction had not commenced. The investment amount of the Shawan Industrial Park Wastewater Treatment Plant Phase I is subject to the approval of the feasibility report by the local government. For the other eight projects, we expect to invest an aggregate amount of approximately RMB857.0 million.

Set out below are the details of the nine planned projects:

BOT and BOO Projects

No.	Type	Project	Project Company	Location	Concession	Expected Investment	Designed Capacity	Water Quality Required	Expected Unit Price ⁽²⁾	Expected Commencement Date of Construction	Expected Completion Date of Construction
					Period	Amount					
					(Years)	(RMB million)	(10,000 tonnes/day)		(RMB/tonne)		
BOT Projects ⁽¹⁾											
1	Tap Water Supply	Dali Water Supply Plant III Expansion		Dali, Yunnan	30	177.4	3.5	National Drinking Water Standard (GB5749-2006)	3.0	June 2015	July 2016
2	Tap Water Supply	Dali Water Supply Plant VI Phase II		Dali, Yunnan	30	134.9	2.5	National Drinking Water Standard (GB5749-2006)	3.0	June 2015	July 2016
3	Tap Water Supply	Yingqiao Tap Water Supply Plant	Dali Water	Dali, Yunnan	30	123.3	1.5	National Drinking Water Standard (GB5749-2006)	3.0	June 2015	July 2016
4	Tap Water Supply	Xizhou Tap Water Supply Plant		Dali, Yunnan	30	110.0	1.0	National Drinking Water Standard (GB5749-2006)	3.0	June 2015	July 2016
5	Tap Water Supply	Shuanglang Tap Water Supply Plant		Dali, Yunnan	30	98.1	1.0	National Drinking Water Standard (GB5749-2006)	3.0	June 2015	July 2016
BOO Project ⁽¹⁾											
6	Tap Water Supply	Mengla Tap Water Supply Project	Our Company	Mengla, Yunnan	30	83.5	2.0	National Drinking Water Standard (GB5749-2006)	2.0	May 2015	December 2015

Notes:

- (1) No guaranteed minimum volume is set out in the concession agreements for the BOT and BOO tap water supply projects.

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- (2) The expected unit price will be adjusted according to the actual unit price charged by the government to the end users when the relevant tap water supply project commences commercial operation. See “Regulatory Environment — Concession in Municipal Public Utilities Projects — Pricing” and “Business — Concession Projects — Key Terms of Concession Agreements — Tariff and Payments”.

BT Project

No.	Type	Project	Project Company	Location	Expected Investment Amount	Repurchase Fees	Repurchase Period	Expected Commencement Date of Construction	Expected Completion Date of Construction
					(RMB million)		(Month)		
7	Wastewater Treatment	Shawan Industrial Park Wastewater Treatment Plant Phase I	Shawan Haorui Water	Shawan, Xinjiang	— ⁽⁵⁾	Construction cost + interests ⁽¹⁾	24	September 2015	August 2017
8	Tap Water Supply	Ninger Tap Water Plant II Expansion Project ⁽²⁾	Our Company	Ninger, Yunnan	36.0	Construction cost + interests ⁽³⁾ + management fee ⁽⁴⁾	36	— ⁽⁶⁾	— ⁽⁶⁾
9.	Municipal Waste Disposal	Dali Food Waste Disposal Project ⁽²⁾	Dali Water	Dali, Yunnan	94.0	Construction cost + fund cost ⁽⁷⁾ + construction management fee ⁽⁸⁾	48	June 2015	June 2016

Notes:

- (1) Interests = construction cost x (actual interest rate + 2%).
- (2) This project is in the form of entrusted construction, which is carried out in the same way as a typical BT project except that we are not the owner of the project during the construction and repurchase periods.
- (3) The interest rate is 8% or the actual loan rate if the actual loan rate is less than 8%.
- (4) Management fee = (total investment amount - the customer's investment amount) x 3%.
- (5) The BT agreement for Shawan Industrial Park Wastewater Treatment Plant Phase I does not specify the expected investment amount. We are in the process of preparing a feasibility report for this project to determine, among other things, the expected investment amount.
- (6) According to the Ninger entrusted construction agreement, this project will commence construction after the completion of land expropriation by the local government. As at the Latest Practicable Date, the local government was still negotiating with local residents regarding the land expropriation and no guarantee could be given by the local government on when the land expropriation will be completed. As a result, we are not able to predict the commencement date and completion date of the construction for this project.
- (7) Fund cost = actual investment x (current loan rate of commercial banks x (1+Y)+3%), where Y is to be determined by both parties based on relevant PRC laws and regulations.
- (8) Construction management fee = construction cost x 3%

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Financial Projections for the Planned Projects and Membrane Production Plant

Planned BOT and BOO projects

According to the relevant PRC laws and regulations, we have to prepare a feasibility report in order to undertake the construction of wastewater treatment and water supply concession projects. Such feasibility report, which contains the financial projections for a project, must be approved by the relevant local government before commencement of construction.

For the five planned projects under Dali Water and the Yuxi waste incineration and power generation project, we are in the process of preparing the relevant feasibility reports for governmental approval. We expect to obtain the governmental approvals before August 2015.

The feasibility report for the Mengla project has been approved by the local government. According to the feasibility report and the concession agreement, we expect that the revenue for the Mengla project will be nil, RMB10.8 million and RMB13.5 million, respectively, and the gross profit will be nil, RMB4.8 million and RMB6.0 million, respectively, for the years ending 31 December 2015, 2016 and 2017. We expect to recognise a negative cash flow of RMB66.8 million and RMB10.4 million, respectively, for the years ending 31 December 2015 and 2016 and a positive cash flow of RMB8.8 million for the year ending 31 December 2017.

Planned BT projects

The financial projections for our BT projects are based on the investment amount and the calculation of repurchase amounts as prescribed in the relevant agreements. The investment amounts for the Dianchi project, Ninger Tap Water Plant II Expansion Project and Dali Food Waste Disposal Project are set out in the relevant agreements. The agreement for the Shawan Industrial Park Wastewater Treatment Plant Phase I Project does not specify the investment amount, which is subject to an audit by an independent cost consultant appointed by the customer and us after the completion of construction.

Based on (i) the ancillary agreement for the sub-project of the Dianchi project; and (ii) the assumptions that (a) we will recognise revenue based on the percentage of completion method and gross profit based on a margin of 3.5% in 2015 and 2016 according to the ancillary agreement, (b) we will recognise revenue based on a margin of 12% of the repurchase base amount, which includes the construction costs and financing costs expected to be incurred by us in 2015, 2016 and 2017 according to the ancillary agreement and (c) we will not recognise construction costs in 2017 as the construction will be completed in 2016, we expect that the revenue for the sub-project will be RMB63.6 million, RMB28.2 million and RMB6.6 million, respectively, and the gross profit will be RMB3.6 million, RMB8.2 million and RMB6.6 million, respectively, for the years ending 31 December 2015, 2016 and 2017. As the construction with respect to this sub-project is expected to be completed in March 2016 and the repurchase

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period will commence in April 2017, we expect that no additional cost will be incurred in 2017. We expect to recognise a negative cash flow of RMB48.0 million and RMB13.2 million, respectively, for the years ending 31 December 2015 and 2016 and a positive cash flow of RMB26.6 million for the year ending 31 December 2017.

The Ninger Tap Water Plant II Expansion Project is an entrusted construction project. The entrusted construction agreement stipulates the estimated investment amount, which is expected to be RMB36.0 million, and the calculation method for the repurchase amount. Based on the assumptions that (i) during the construction period, we will recognise gross profit based on a margin of 3% according to the Ninger entrusted construction agreement, and (ii) during the repurchase period, we will recognise gross profit based on a margin of 8% according to the Ninger entrusted construction agreement and we expect to recognise revenue of RMB43.4 million and gross profit of RMB7.4 million for this project. As at the Latest Practicable Date, we were not able to estimate the revenue and gross profit per year as the commencement date and completion date of construction for this project could not be determined. According to the Ninger entrusted construction agreement, this project will commence construction after the completion of land expropriation by the local government. As at the Latest Practicable Date, the local government was still negotiating with local residents regarding the land expropriation and no guarantee could be given by the local government on when the land expropriation would be completed.

The Dali Food Waste Disposal Project is an entrusted construction project. The entrusted construction agreement stipulates the estimated investment amount, which is expected to be RMB94.0 million, and the calculation method for the repurchase amount. Based on the assumptions that (i) during the construction period, we will recognise gross profit based on a margin of 3% according to the entrusted construction agreement, and (ii) during the repurchase period, we will recognise gross profit based on a margin of 9%, we expect that the revenue for the project will be RMB57.4 million, RMB46.2 million and RMB6.7 million, respectively, and the gross profit will be RMB2.4 million, RMB7.3 million and RMB6.7 million, respectively, for the years ending 31 December 2015, 2016 and 2017. As the construction with respect to this project is expected to be completed in June 2016 and the repurchase period will commence in August 2017, we expect that no additional cost will be incurred in 2017. We expect to recognise a negative cash flow of RMB44.0 million and RMB28.3 million, respectively, for the years ending 31 December 2015 and 2016 and a positive cash flow of RMB20.9 million for the year ending 31 December 2017.

Membrane Production Plant

A majority of the membrane equipment manufactured by our Membrane Production Plant will be supplied to meet the needs of our own concession projects and only a small portion of the manufactured membrane equipment will be sold to external customers for third party projects. As a result, the financial performance of the Membrane Production Plant is largely subject to the development of our wastewater treatment and water supply concession projects.

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POTENTIAL COOPERATION OPPORTUNITIES

We are currently in negotiations with three potential partners, who are all Independent Third Parties, in respect of a cooperation in two wastewater treatment facilities, three tap water supply facilities and one chemical waste disposal facility operated by these potential partners. All of the facilities are located in Shandong. The current aggregate designed daily wastewater treatment capacity of the two wastewater treatment facilities is 70,000 tonnes, the current aggregate designed daily tap water supply capacity of the three tap water supply facilities is 65,000 tonnes and the current annual waste disposal capacity of the chemical waste disposal facility is 44,800 tonnes.

As at the Latest Practicable Date, we had not signed any agreement with any of the three potential partners. The form of proposed cooperation includes, but is not limited to, provision of engineering service or sale of equipment to the facilities operated by the potential partners, establishment of joint ventures with the potential partners to operate the facilities and obtaining the facilities operated by the potential partners through acquisition. However, the cooperation may or may not materialise depending on the negotiations between the parties. Our decision to proceed with the cooperation and the form of cooperation are subject to a variety of factors including, but not limited to, market conditions, business and financial needs, the relevant regulatory approvals, Shareholders approval as required under the Listing Rules, if applicable, and the results of our legal and financial due diligence on the project companies and the target facilities. Even if the parties decide to proceed with the cooperation and are able to reach a definitive agreement, it may take time for the parties to obtain the requisite government approvals and there may be further uncertainty involved. We plan to use our internal resources to fund our projects with these potential partners.

The first potential partner

The first potential partner operates a wastewater treatment facility in Zhanhua county. The concession agreement for the wastewater treatment facility was signed between the local government and the first potential partner in April 2010, and the facility is operated under a BOT project model with a concession period of 30 years. The total designed daily capacity of this facility is 30,000 tonnes. Phase I of this facility has commenced operation with a designed daily capacity of 10,000 tonnes. Its unit price for wastewater treatment ranges from RMB1.45/tonne to RMB1.65/tonne depending on the actual wastewater treatment volume. The facility is planned to be upgraded and expanded. Upon completion of the upgrade and expansion, its total designed daily capacity is expected to reach 30,000 tonnes and the wastewater effluent will meet the Class I Standard A. Due to the improved quality of wastewater effluent, the first potential partner will be entitled to charge wastewater treatment tariffs based on a unit price ranging from RMB4.5/tonne to RMB6.5/tonne.

The second potential partner

The second potential partner operates three tap water supply facilities in Qingzhou city and one wastewater treatment facility in Sishui county through different project companies. Among the three tap water supply projects, two are operated under a TOT project model and

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one is operated under a BOT project model. The total designed daily capacity of the three tap water supply facilities is 65,000 tonnes. The concession period for each of the three tap water supply facilities in operation is 30 years ending in 2038. The wastewater treatment facility in Sishui county is operated under a TOT project model, with a concession period of 30 years ending in 2038. The current guaranteed minimum volume of the wastewater treatment facility is 40,000 tonnes, which is the same as its designed daily capacity. The current unit price for wastewater treatment is RMB0.66/tonne.

The third potential partner

The third potential partner is a company in Jinan city which engages in a hazardous chemical wastes disposal project. The annual disposal capability of the project is 44,800 tonnes, including 9,900 tonnes for the disposal of hazardous sludge through incineration, 25,000 tonnes for the disposal of acid-base wastes and 9,900 tonnes for the disposal of combustible wastes. As this may be a new sector for us, our management may need to develop their experience in operating the chemical waste disposal project. See “Risk Factors — Risks Relating to Our Business and Industry — Our possible expansion into the municipal waste disposal, waste incineration and power generation, wastewater reclamation and chemical waste disposal businesses may not be successful”.

OUR FOUR BUSINESS CENTRES

We have established four business centres to centrally manage different aspects of our business. The following table sets forth our four business centres as well as their major functions:

Business Centre	Major Functions
Market & investment centre	Coordinating the allocation of resources of our subsidiaries and collecting, analysing and organising market intelligence to create a central information database.
Technology & risk control centre	Managing our core technologies; controlling our exposure to operational, legal and financial risks in our business and conducting research and development of new technologies, processes and equipment for our business.
Project management centre	Managing the construction aspects of our BOT, BOO, BT and EPC projects and assisting in (i) the maintenance of records; (ii) the transfer of our BT projects to our customers when the repurchase period ends; and (iii) the commissioning of our projects when the construction is completed.

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Business Centre	Major Functions
Operation & management centre	Managing, guiding, supervising and evaluating any issue arising from the operation of our wastewater treatment, water supply and municipal waste disposal projects including ensuring the quality of our wastewater effluent and supplied tap water.

Our four business centres collaborate closely with each other at key stages of our project development. For example, our market & investment centre identifies a potential water project based on the market intelligence obtained. Our technology & risk control centre then assesses the operational, legal and financial aspects of the potential water project. Once the concession agreement is approved and is entered into, our project management centre manages the construction of the water project. After the water facility is constructed, our operation & management centre is responsible for operating the water facility during the concession period.

RAW MATERIALS AND EQUIPMENT

During the Track Record Period, we generally sourced our raw materials and equipment from local suppliers. Our principal raw materials were as follows:

Business activity	Primary raw materials and equipment
Operating our wastewater treatment and water supply facilities	Chemicals such as polyacrylamide, disinfectant and polyferric sulfate and equipment such as water pumps, agitators, grid machines, aeration machines, mud scrapers, gates, check gates, dehydrators, water decanters, electrical panels and quality control equipment.
Operating our municipal waste disposal facilities	Diesel, transportation equipment, loaders, earth soil, leachate treatment equipment and electricity.
Manufacturing membranes	Polyvinylidene fluoride (PVDF) and dimethylacetamide (DMAC) solution

For construction of our wastewater treatment, water supply and municipal waste disposal facilities, our contractors procure raw materials on their own. For further information, see “Business — Suppliers”.

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To meet the requirements of our wastewater treatment and water supply operations, we rely on our in-house technicians to work together with equipment suppliers to assemble, install and maintain such equipment. We generally fine-tune the purchased equipment during the test-running period to ensure that the equipment meets our requirements. We have to pay raw water fee and water resource fee based on the volume of incoming raw water. For the years ended 31 December 2012, 2013 and 2014, the total amount of raw water fee and water resource fee we paid were RMB12.2 million, RMB13.4 million and RMB20.6 million, respectively.

Our inventory mainly comprises construction materials, chemicals, maintenance equipment and semi-finished and finished goods. In accordance with our inventory policy, we typically keep three months of raw materials. As at 31 December 2012 and 2013 and 2014, our inventories were RMB10.7 million, RMB8.7 million and RMB12.5 million, respectively.

For the years ended 31 December 2012, 2013 and 2014, our costs of raw materials in our wastewater treatment, water supply and municipal waste disposal businesses amounted to RMB17.3 million, RMB16.8 million and RMB25.2 million respectively, amounting to 6.7%, 3.9% and 3.3% of our cost of sales, respectively.

SUPPLIERS

Our principal suppliers during the Track Record Period were contractors we engaged to construct and install equipment in our projects, design institutes who provide design for our projects and our suppliers of equipment and raw materials.

For the years ended 31 December 2012, 2013 and 2014, our largest suppliers were Guangdong Kaiping Jianan Group Co., Ltd., Yunnan Construction and Yunnan Construction, respectively, which accounted for approximately 8.4%, 54.3% and 55.0%, respectively, of our total purchase costs. The main business of these suppliers are construction and installation. For the same periods, our five largest suppliers accounted for approximately 29.0%, 73.9% and 67.0% of our total purchase costs, respectively. We have been working with our five largest suppliers for a period ranging from one to four years. Our five largest suppliers typically offer us credit terms of up to 90 days.

For the years ended 31 December 2012, 2013 and 2014, our purchases from Yunnan Construction, which holds 3.79% of the shares of YMCI, were RMB16.6 million, RMB384.5 million and RMB486.6 million, respectively, representing 4.4%, 54.3% and 55.0% of our total purchase in the same periods, respectively. We mainly engaged Yunnan Construction to undertake the construction of our wastewater treatment and water supply projects. The Directors confirm that the transactions with Yunnan Construction were fair and reasonable and entered into on normal commercial terms. During the Track Record Period, we also actively explored opportunities to sell water equipment and provide related technical support to Yunnan Construction. See “Business — Customers, Pricing and Sales”.

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For the years ended 31 December 2012, 2013 and 2014, our purchases from Beijing OriginWater, our second largest Controlling Shareholder, were RMB0.5 million, RMB71.3 million and RMB3.4 million, respectively, representing 0.1%, 10.1% and 0.4% of our total purchase in the same periods. In 2013, Beijing OriginWater was our second largest supplier. We mainly purchased membrane equipment and related materials from Beijing OriginWater during the Track Record Period. The Directors confirm that the transactions with Beijing OriginWater were fair and reasonable and entered into on normal commercial terms.

Except for Beijing OriginWater, all of our five largest suppliers are Independent Third Parties, and none of our Directors, their respective associates or any of our Shareholders holding more than 5% of the issued share capital of our Company as at the Latest Practicable Date, to the knowledge of our Directors, owned any interest in any of our five largest suppliers during the Track Record Period and up to the Latest Practicable Date. During the Track Record Period, we did not enter into any long-term agreements with our suppliers.

Selection of Suppliers

We have established a centralised procurement policy for the selection of suppliers. Under the policy, our headquarters-based procurement department select suppliers on behalf of our project companies if (i) the construction value exceeds RMB0.5 million; (ii) the value of the raw materials and equipment exceeds RMB0.1 million; or (iii) the value of the services to be provided by our suppliers exceeds RMB50,000. For amounts below these thresholds, our subsidiaries are allowed to make the decision to select suppliers. In addition, if the value of the construction raw materials, equipment or services is more than RMB30,000, we are required to select suppliers from at least three potential suppliers. We place great emphasis on the quality and timely delivery of the raw materials and equipment provided by our suppliers.

We select contractors and design institutes through a tendering process or competitive negotiation. Prior to engaging independent contractors and design institutes, we assess their skills, qualifications, expertise and experience. We also consider their track record and their financial condition. We require all of our independent contractors and design institutes to possess the requisite qualifications for undertaking the works for which they are commissioned.

We enter into construction contracts with our contractors. The contractors are responsible for completing the construction works in accordance with both our design and any national and industry standards. The contractors are responsible for procuring the raw materials and equipment. The contractors bear any risk of increases in the cost of raw materials. We pay monthly fees to our contractors based on the percentage of completion of the construction works. We normally pay 80% to 85% of the consideration during the construction phase, and up to 95% of the consideration after completion of the final acceptance test. We retain 5% of the consideration during the warranty period, which lasts from one to five years depending on the terms of the relevant contracts. The retention money is released upon expiration of the warranty period. During the construction phase, the contractors bear all legal liabilities and economic losses arising from any accident caused by their insufficient safety measures.

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We enter into design contracts with design institutes. The design institutes are responsible for completing the design in accordance with the relevant national and industry standards. We normally pay up to 20% of the consideration for their services after executing the design contracts. We then make progress payments according to the percentage of completion of the design. The remaining 5% to 15% of the consideration will be paid to the design institutes upon acceptance of the constructed projects.

We have worked with most of our contractors and design institutes for one to three years. During the Track Record Period and up to the Latest Practicable Date, we did not experience any material disputes with our contractors or design institutes and did not experience any suspensions or delays of operation as a result of the improper actions of our contractors or design institutes.

We have readily available alternative suppliers in the market who offer similar materials with terms comparable to our existing suppliers. To mitigate the risks associated with any reliance on our major suppliers, we periodically seek potential alternative suppliers and obtain quotations from such suppliers with the view to keeping in contact with potential suppliers who can offer favourable pricing and delivery terms. As at the Latest Practicable Date, we had not experienced any material difficulties in obtaining any construction services, raw materials or equipment for our business operations.

CUSTOMERS, PRICING AND SALES

During the Track Record Period, our customers for wastewater treatment services were generally municipal, district or county level governments in Yunnan, Xinjiang, Shandong and Jiangsu, while our customers for our water supply services were generally the users of the water supply facilities, which include local residents, commercial and industrial establishments, enterprises and public institutions in Yunnan. Our customers for construction and equipment sales were generally local governments and the contractors undertaking the construction work of our wastewater treatment projects as well as those of third parties. Our customers for our O&M business were generally the local governments or the facility owners of the wastewater treatment or municipal waste disposal facilities. During the Track Record Period, we did not receive any material complaints from our customers. In general, we grant a credit period of 90 days or less to our customers.

Our wastewater treatment and water supply tariffs are determined based on our production costs and the prevailing profit margins of similar water enterprises in the region. We have the right to increase the wastewater treatment and water supply tariffs charged by us according to the relevant concession agreements and/or relevant PRC laws and regulations. See “Business — Concession Projects — Key Terms of Concession Agreements — Tariff and Payments”. Our tariff per tonne for our wastewater treatment and water supply facilities as at the Latest Practicable Date ranged from RMB0.7 to RMB1.9 and from RMB 1.1 to RMB2.1, respectively. Our fees for our BT, EPC and O&M services are determined based on our construction and/or operation costs and the prevailing profit margin of similar business activities in the region. Our price for membrane equipment will be determined with reference to our production costs and prevailing market prices.

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Our largest customers for the years ended 31 December 2012, 2013 and 2014 were Beijing OriginWater, Yunnan Construction and People's Government of Dali city (a local government in Yunnan), respectively, which accounted for 10.6%, 37.5% and 21.5%, respectively, of our revenue in those periods. For the same periods, sales to our top five customers accounted for 34.8%, 63.7% and 62.6% of our revenue, respectively. The main business of Beijing OriginWater is wastewater treatment services and the manufacturing of environmental protection equipment. The main business of Yunnan Construction is construction and installation of infrastructure facilities.

We sold non-membrane water equipment to Beijing OriginWater in 2012 only, and recognised revenue from Beijing OriginWater of RMB42.3 million, representing 10.6% of our revenue in 2012. We did not sell non-membrane water equipment to Beijing OriginWater in other periods during the Track Record Period. We mainly sold water equipment and provided relevant technical support to Yunnan Construction. For the years ended 31 December 2012, 2013 and 2014, our sales to Yunnan Construction were nil, RMB258.5 million and RMB94.6 million, respectively, representing nil, 37.5% and 8.6% of our total revenue in the same periods, respectively. Our sales to Yunnan Construction increased significantly in 2013 primarily due to its increased demand for wastewater treatment equipment as part of its own construction and installation business. The Directors confirm that the transactions with Beijing OriginWater and Yunnan Construction were fair and reasonable and entered into on normal commercial terms.

During the Track Record Period, we also sold water equipment and provided related technical support to Yunnan Construction for both our own projects and for third party projects for which Yunnan Construction undertook construction work. See “Business — Suppliers”. The sales price of the water equipment we sell to Yunnan Construction is determined based on the prevailing market price of such equipment, which is in line with our sales to independent third parties. When the water equipment we sell to Yunnan Construction is used in the construction of our own projects, our equipment sales revenue is eliminated against the construction costs in progress upon consolidation of our financial statements. Save for such elimination treatment, our accounting treatments and payment terms applied to our equipment sales to Yunnan Construction for the construction of our own projects are the same as those applied to our equipment sales to Yunnan Construction for the construction of third party projects.

Except for Beijing OriginWater, all of our five largest customers are Independent Third Parties, and none of the Directors, their respective associates or any of our Shareholders holding more than 5% of the issued share capital of our Company as at the Latest Practicable Date, to the knowledge of our Directors, owned any interest in any of our five largest customers during the Track Record Period and up to the Latest Practicable Date.

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PROJECT FINANCING

For our concession and BT projects, we will not receive payments from our customers until the projects are in operation or upon the repurchase of the constructed projects. We are also responsible for financing their construction or acquisition. As a result, we have to incur substantial capital expenditure in developing such projects. See “Risk Factors — Risks Relating to our Business and Industry — We require substantial funding for our current and future projects; any failure to obtain adequate funding or refinance our existing debt at reasonable rates, or at all, could adversely affect our financial condition and results of operations and could prevent us from fulfilling our financial obligations and business objectives”. During the Track Record Period, we funded the development costs of our concession and BT projects through internal resources, the issuance of debt instruments and bank borrowings. During the Track Record Period and up to the Latest Practicable Date, in compliance with the relevant PRC laws and regulations, at least 20% of the development costs of our concession and BT projects were funded through our internally generated funds or by contributions from our Shareholders with the remaining to be financed through bank borrowings or proceeds from the issuance of corporate bonds.

For the years ended 31 December 2012, 2013 and 2014, our capital expenditures, which included expenditures on intangible assets, land use right and property, plant and equipment, were RMB103.7 million, RMB350.5 million and RMB369.7 million, respectively. As at 31 December 2014, our outstanding borrowings balance amounted to RMB1,139.3 million. For the years ended 31 December 2012, 2013 and 2014, our borrowings bore a weighted average interest rate of 6.36%, 6.44% and 6.84% per annum, respectively. The term for our loans or debt instruments is generally no more than 15 years. Our loans are generally secured by guarantees. See “Financial Information — Indebtedness”.

In June 2014, we issued an unsecured private placement of bonds of RMB400 million. Going forward, we intend to use our internal resources, bank borrowings and proceeds from debt instruments and the Global Offering to finance the development cost of our concession and BT projects.

Our planned capital expenditures for the year ending 31 December 2015 are approximately RMB517.5 million. Such capital expenditures primarily relate to our investments in the construction of our wastewater treatment and water supply projects. We plan to fund our future capital expenditures with our internal resources, bank borrowings, proceeds from the issuance of corporate bonds and proceeds from the Global Offering.

Our planned capital expenditures may be subject to change due to variations in our future cash flows, results of operations and financial condition, changes in the PRC and the world economy, the availability of financing on terms acceptable to us, technical and other problems in obtaining and installing equipment, changes in the regulatory environment in the PRC and other factors.

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QUALITY CONTROL

We endeavour to ensure our quality at different stages of our operations. Our quality control team consists of 62 personnel, all of whom possess the necessary industry experience to maintain the quality of our operations. At the project planning stage, we utilise our substantial experience to assess the volume and quality of the wastewater to be treated or raw water to be supplied and then design the wastewater treatment or tap water supply facilities to cater to our customers' needs. During construction of wastewater treatment and tap water supply facilities, we apply our extensive project management skills to closely monitor the progress and quality of the construction and also engage a professional construction supervision firm to provide professional construction management service. When our wastewater treatment and tap water supply facilities come into operation, we continuously monitor the quality of the wastewater effluent and supplied tap water by using a sophisticated computerised control system. This computerised control system is able to maintain on-line and real-time tracking of every aspects of our facility operation. The local government has installed a computerised control system at our wastewater treatment facilities which allows them and us to monitor the quality of the wastewater 24 hours per day. For our tap water supply facilities, we inspect the incoming raw water and supplied tap water on a daily basis and inspect the tap water discharged from our pipeline network at least three times each month.

In order to ensure the quality of the membranes to be manufactured, we have implemented a strict quality control system covering the whole process of membrane manufacturing and assembly. We strictly test the quality of the raw materials for membrane spinning to ensure that all the raw materials meet the standards and are suitable for membrane manufacturing.

During the Track Record Period and up to the Latest Practicable Date, we had not encountered any material quality problems with respect to our wastewater effluent, supplied tap water or manufactured membrane products.

RESEARCH AND DEVELOPMENT

We adopt a commercially driven approach to our research and development. As at the Latest Practicable Date, we had 11 research and development personnel, of which nine held a bachelor's degree or above. For the years ended 31 December 2012, 2013 and 2014, our research and development costs were RMB11,476, RMB4.7 million and RMB4.2 million, respectively, accounting for nil, 6.2% and 3.3% of our administrative expenses, respectively and the government subsidies granted to our research and development were RMB1.9 million, RMB2.1 million and RMB12.3 million, respectively.

Our research and development efforts focus on (i) improving and adapting our existing technologies and treatment techniques to meet the specific requirements of our current projects for the purpose of increasing their operating efficiency; and (ii) developing and commercialising new technologies in areas where we believe there is a strong growth potential in the near to medium term. In March 2014, we applied to the National Development and Reform Commission, Yunnan Province for the establishment of the Yunnan Research and

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Engineering Centre of Water Pollution Control and Resource Reuse (雲南省水污染控制及資源化工程研究中心). The centre aims to provide solutions in relation to water resources conservation in Yunnan. In particular, the centre focuses on research and development of membrane technology for wastewater treatment and water supply.

In addition, we also collaborate and maintain close contact with the governments and academic institutions. Our collaborations are supported by government funding.

Project Collaboration with the PRC Government

Sludge treatment research

Sludge is produced during our wastewater treatment process. We incur costs to dispose of the sludge. We work with the National Engineering Research Centre for Urban Pollution Control (城市污染控制國家工程研究中心) and the Municipal Engineering Quality Test Station of Yunnan Province (雲南省市政工程質量檢測站) on developing plant bed wastewater sludge treatment system (污泥土壤化植物床系統). This technology is expected to serve as the foundation of our sludge treatment research, as we integrate our research and development of this technology with other advanced technologies, such as solar dryer technology (太陽能乾燥), plant bed treatment systems (植物床處理系統), organic fertilizers production (有機肥產) and soil ameliorant (土壤改良) sludge treatment technologies. We believe this research and development will improve our sludge treatment technologies and decrease our sludge treatment costs at small scale wastewater treatment plants. According to the research cooperation agreement entered into among the National Engineering Research Centre for Urban Pollution Control, the Municipal Engineering Quality Test Station of Yunnan Province and us, the intellectual property rights derived from this research are shared by the National Engineering Research Centre for Urban Pollution Control and us. However, we have the exclusive right to use and dispose of the intellectual property rights derived from this research.

Research and development of high efficiency and low energy consumption biochemistry processing technology for wastewater in towns and villages

We have conducted research and development on a biochemical wastewater treatment technology for towns and villages. The application of this treatment technology will reduce construction and operation costs and will promote the development of wastewater treatment facilities in towns and villages. This project was one of 28 projects selected from the “Technology To Benefit The People Scheme” (科技惠民計劃). A government grant of RMB1.1 million was approved, and funding will be paid to us in three instalments from 2014 to 2016. We are also collaborating with Kunming University of Science and Technology (昆明理工大學) on developing this research and development project. We hope this project will improve our wastewater treatment technologies and reduce our costs of operation. The intellectual property rights derived from this research are owned by us.

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Research and development of the high performance polyvinylidene fluoride hollow fiber membranes for wastewater treatment

We have conducted research and development on advanced high performance polyvinylidene fluoride hollow fibre membranes. If the research and development is successful, it has the potential to satisfy the need for membrane materials in our industry. By applying non-solvent-induced phase separation (NIPS) and supportive fibre inside, the membranes will have a stronger fibre structure. This structure is particularly suitable for MBR technology and mega-ton wastewater treatment engineering. This research has been approved as a research project in the new material area under the National High-tech R&D Program in the PRC. As at the Latest Practicable Date, we had been granted a government subsidy of RMB6.5 million to support our research. The intellectual property rights derived from this research are owned by us.

Collaboration with Academic Institution

Kunming University of Science and Technology (昆明理工大學)

We entered into a collaboration agreement for research and development with Kunming University of Science and Technology in March 2012, pursuant to which: (i) we have conducted research and development in wastewater engineering and reclaimed wastewater engineering (ii) the university has provided advice and support to us in relation to environmental protection; and (iii) we have established a talent development programme, where the researchers and students from the university have conducted their research and studies in our facilities and on our premises.

AWARDS AND RECOGNITION

We have received various awards and recognitions in the PRC for our operations, including:

Year	Award/Certificate	Awarded Entity	Awarding Body
2013	The Most Growth Potential Investment and Operation Company in Water Industry 2012 (2012水業年度最具成長性投運類企業)	Our Company	H2O-China (中國水網)
2013	Environmental Protection Facilities Operation Certificate (環境污染治理設施運營資質證書)	Our Company	Yunnan Environmental Protection Department
2013	An advanced Group (先進集體)	Our Company	Yunnan provincial government

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Year	Award/Certificate	Awarded Entity	Awarding Body
2013	Yunnan High-quality Project (First Prize)	Zhenxiong Water	Yunnan Construction Industry Association
2013	Landscape Garden Unit of Yunnan (雲南省園林單位)	Nanjian Water	The Department of Housing and Urban-Rural Development of Yunnan Province
2012	Vice-director Member of Yunnan Municipal Water Supply Association	Our Company	Yunnan Municipal Water Supply Association

COMPETITION

The wastewater treatment and water supply market in the PRC has evolved significantly over the past decade. We operate in a highly competitive and fragmented market. We face competition from more than 1,200 participants, including state-owned enterprises, collective companies, sino-foreign joint venture companies and privately owned enterprises. We believe companies that engage in the wastewater treatment and water supply industry would mainly compete on the following factors: project execution capability, research and development capability, understanding of the local governmental landscape, quality and price of wastewater treatment and water supply services, brand reputation, marketing and customer services. Some of our competitors may have greater brand recognition, economies of scale, longer track records and more established relationships in some markets in which we operate.

INTELLECTUAL PROPERTY

As at the Latest Practicable Date, we had nine registered patents and five patent applications for technologies relating to wastewater treatment, water supply, sludge treatment, membrane manufacturing and application and municipal waste disposal. The patent applications have passed preliminary review and are undergoing the substantial review stage. We engaged a patent agent to prepare and submit the patent applications and believe that we will be able to pass the review and obtain the patents. In the event that our first application is rejected by the patent authority, we will work with the patent agent to consider the reasons for the rejection and resubmit the application, if possible. Even if we fail to obtain any or all of the patents which we applied for, such failure is not expected to have a material adverse effect on our business as (i) the technologies underlying the patent applications are not significant to the construction and operation of our facilities and are merely improvements to the existing technologies we currently apply in our operations; and (ii) we have not yet applied any of such improvements to our operations and the current operations of our plants are not dependent on such improvements. Should we be unable to register the patents, we may develop alternative improvements and new technologies to expand our operations. We do not expect to incur a substantial amount of research and development costs to develop alternative improvements or new technologies for our future expansion.

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Apart from the five patent applications, we currently utilise two patented technologies owned by Beijing OriginWater for our membrane application and wastewater treatment. Pursuant to the licensing agreement we entered into with Beijing OriginWater on 19 September 2014, we are authorised to exclusively use and commercialise the membrane related patented technology from 19 September 2014 to 4 December 2031 on a free-of-charge basis. See “Risk Factors — Risks Relating to our Business and Industry — Because we are not the owner of certain of our membrane manufacturing and application technologies, we may be unable to continuously use or commercialise these technologies in the future” and “Connected Transactions”. To the best knowledge of the Directors and as confirmed by Beijing OriginWater, Beijing OriginWater had not been involved in any litigation, legal proceedings or disputes in relation to the patented technologies licensed to us during the Track Record Period and up to the Latest Practicable Date.

We were not involved in any litigation or legal proceedings for violation of intellectual property rights of third parties, nor have we suffered from any infringement of our intellectual property during the Track Record Period and up to the Latest Practicable Date. See “Appendix V — Statutory and General Information — Other Information — Litigation”.

PROPERTIES

Our head office, which is leased by us, is located at 15th and 16th Floors, Block A, He Cheng International, 1088 Haiyuan Zhong Road, Gaoxin District, Kunming, Yunnan, PRC. Our property interests principally comprise: (i) the land and buildings with respect to our BOO/TOO and BOT/TOT projects occupied by us pursuant to concession agreements; (ii) the land and buildings with respect to our Membrane Production Plant; and (iii) the properties leased by us. In addition, we also use certain properties in connection with our BT, EPC and O&M projects.

As at the Latest Practicable Date, no single property interest forming part of our property activities had a carrying amount of 1% or more and no non-property activities had a carrying amount of 15% or more of our total assets, respectively. Accordingly, we are not required by Chapter 5 of the Listing Rules to value or include in this prospectus any valuation report of our property interests. As such, according to section 6(2) of Companies (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice (Chapter 32L of the Laws of Hong Kong), this prospectus is exempted from compliance with the requirements of section 342(1)(b) under paragraph 34(2) of the Third Schedule to Companies (WUMP) Ordinance, which requires us to submit a valuation report for all of our interests in lands and buildings.

To the best knowledge of our Directors, there were no encumbrances on the land use rights owned by us or the local governments or their designees or other third parties as at the Latest Practicable Date.

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Properties Occupied by Us Pursuant to Concession Agreements

Set out below is an overview of the property interests in respect of our concession projects:

1. We have obtained the relevant land use right certificates/building ownership certificates, or where such certificates are absent, written confirmations from the relevant and competent government authorities confirming our right to legally use the parcels of land underlying such projects and/or the relevant buildings in accordance with PRC laws and regulations; and, where applicable, there are no legal impediments for us being granted/transferred the relevant certificates.
2. With regard to the land and buildings occupied by us for which we do not have land use right certificates/building ownership certificates, our PRC legal adviser has confirmed that we have the right to legally use such parcels of land and buildings, notwithstanding the absence of the relevant land use right certificates/building ownership certificates.
3. With regard to all the written confirmations from the relevant government authorities for properties used in our concession projects as mentioned above, our PRC legal adviser has advised that such government authorities are the competent authorities to issue such confirmations.

The following table sets out the details of our properties under BOO/TOO and BOT/TOT project models as at the Latest Practicable Date:

	BOO/TOO ⁽¹⁾		BOT/TOT ⁽²⁾	
	Land use right certificate	Building ownership certificate	Land use right certificate	Building ownership certificate
With certificates				
Parcels of land / number of buildings	38	58	19 ⁽³⁾	1
Total land area / GFA (sq.m.)	377,508.4	17,834.8	471,491.7	1,120.8
Without certificates				
Parcels of land / number of buildings	nil	30	24	219
Total land area / GFA (sq.m.)	nil	9,354.6	2,094,586.9	54,438.2

Notes:

- (1) As advised by our PRC legal adviser, with respect to our BOO/TOO projects, we are entitled to occupy and use the land and buildings and we are responsible for obtaining the land use right certificates and the building ownership certificates pursuant to the relevant concession agreements.
- (2) As advised by our PRC legal adviser, with respect to our BOT/TOT projects, we are entitled to occupy and use the land and buildings and are not legally or contractually required to obtain the land use right certificates or the building ownership certificates.

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- (3) Comprises parcels of land with respect to which the land use rights have been obtained by us or by local governments, their designees or the third-party companies controlled by the local governments (except for Ludian Water, see “Business — Properties — Properties occupied by us pursuant to Concession Agreements — BOT/TOT projects — Land use right certificate”).

Further details of the property interests relating to our concession projects are set out below.

BOO/TOO projects

Land use right certificate

As at the Latest Practicable Date, we occupied 38 parcels of land underlying our BOO/TOO projects with an aggregate site area of approximately 377,508.4 square metres, and we had obtained the relevant land use right certificates for all these parcels of land: (i) we had obtained the relevant land use right certificates for 26 parcels of land granted by local governments with an aggregate site area of approximately 288,198.8 square metres, representing approximately 76.3% of the total site area of the land underlying our BOO/TOO projects; and (ii) we had obtained the relevant land use right certificates for 12 parcels of land allocated by local governments with an aggregate site area of approximately 89,309.5 square metres, representing approximately 23.7% of the total site area underlying our BOO/TOO projects.

As advised by our PRC legal adviser, pursuant to the Land Administration Law of the People’s Republic of China (《中華人民共和國土地管理法》) (“**Land Administration Law**”), the Law of the People’s Republic of China on the Administration of Urban Real Estate (《中華人民共和國城市房地產管理法》) (“**Real Estate Law**”) and the Land Allocation Catalogue (《劃撥用地目錄》) (“**Land Allocation Catalogue**”), (i) the local governments at or above the county level have the right to allocate land for developing urban infrastructure, which includes, but is not limited to, water supply and wastewater treatment plants; and (ii) the assignment of the foregoing 12 parcels of allocated land by the local governments does not require prior approval of the state land administration bureaus or any other government authorities. Our PRC legal adviser has also advised that, based on the Land Administration Law, the Real Estate Law, the Land Allocation Catalogue, the relevant land use right certificates and the written confirmations we have obtained from the local governments or the local government authorities, (i) these 12 parcels of land allocated by such local governments can be used for developing water supply and wastewater treatment plants; (ii) the risk of the government confirmations being challenged or revoked by higher-level government authorities is remote; and (iii) the allocation by such local governments and our use of these 12 parcels of land are valid and comply with the relevant PRC laws and regulations.

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During the Track Record Period, (i) prior to the commencement of construction of our relevant BOO/TOO projects, we had not obtained the relevant land use right certificates for eight parcels of land underlying these projects with an aggregate site area of approximately 178,960 square metres; and (ii) prior to the commencement of operation of our relevant BOO/TOO projects, we had not obtained the relevant land use right certificates for five parcels of land underlying these projects with an aggregate site area of approximately 124,060 square metres. We had not obtained such land use right certificates because: (i) for our BOO/TOO projects, we were required by the local governments to commence construction work/operation of the relevant projects prior to obtaining the land use right certificates in order to expedite the improvement of tap water supply; and (ii) for a portion of our TOO projects, the sellers from whom we acquired such projects failed to obtain the land use right certificates prior to the commencement of the construction and operation of the projects. We believe we have implemented adequate and effective internal control measures to prevent the recurrence of such property issues including the commencement of construction work for our projects at the request of local governments without first having the relevant land use right certificates. See “Business — Properties — Internal Control Measures”.

Given that (i) we have subsequently obtained the relevant land use right certificates from the competent government authorities and (ii) we have obtained written confirmations from the relevant competent government authorities confirming our right to legally use the parcels of land underlying such projects in accordance with PRC laws and regulations, our PRC legal adviser has advised that we lawfully occupy and use the parcels of land underlying our BOO/TOO projects, for which we had not obtained the relevant land use right certificates prior to the commencement of construction/operation during the Track Record Period, and that we will not be subject to any penalties for our failure to obtain the relevant land use right certificates during the Track Record Period. We have obtained an indemnity undertaking provided by Yunnan Province Water and Beijing OriginWater in respect of any losses or expenses which may be incurred by us as a result of such title defects.

Building ownership certificate

As at the Latest Practicable Date, we occupied 88 buildings in respect of our BOO/TOO projects with an aggregate floor area of approximately 27,189.4 square metres: (i) we had obtained the relevant building ownership certificates for 58 buildings with an aggregate floor area of approximately 17,834.8 square metres, representing approximately 65.6% of the total floor area of the buildings in respect of our BOO/TOO projects; and (ii) we had not obtained the relevant building ownership certificates for the remaining 30 buildings with an aggregate site area of approximately 9,354.6 square metres, representing approximately 34.4% of the total floor area of the buildings in respect of our BOO/TOO projects.

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For further details regarding the aforesaid 30 buildings, please see the table below:

Project	Project Company	Building Use	Reasons for Not Having Building Ownership Certificates	Legal Consequences	Actions Taken and Status as at the Latest Practicable Date	Potential Operational and Financial Impacts
Dali Water Supply Plant VI (Hai Dong) (Phase I)	Dali Water	Composite building and other use	As advised by our PRC legal adviser, under the relevant PRC laws and regulations, we cannot obtain a building ownership certificate without having a land use right certificate. We did not obtain the relevant land use right certificates for the parcels of land underlying the Dali Water Plant VI (Hai Dong) (Phase I), Lushui Water Supply Plant II and Mengzi Wastewater Treatment Plant prior to the commencement of operation of these projects. As a result, we could not obtain the relevant building ownership certificates.	As advised by our PRC legal adviser, we are restricted from selling and pledging the buildings in respect of these projects prior to obtaining the relevant building ownership certificates.	While there is no legal impediment for us to obtain the relevant building ownership certificates, our ability to do so is subject to the completion of the administrative procedures of the local government authorities. We have been communicating with the Dali Haidong Development Zone Administration Committee, Lushui County Urban-Rural Development Bureau and Mengzi Municipal Housing and Urban-Rural Development Bureau and have requested these government authorities to expedite the relevant administrative procedures for issuing the relevant building ownership certificates to us. We expect to obtain the relevant building ownership certificates for these projects by the following time:	Our PRC legal adviser is of the view that, based on the government confirmation, (i) we can legally use the buildings in respect of this project from the commencement of the relevant concession period; (ii) there is no legal impediment for us to obtain the relevant building ownership certificates for such buildings after submitting the application documents in accordance with the law; and (iii) such buildings are not illegal buildings, and our use of such buildings did not violate the relevant PRC laws and regulations.
Lushui Water Supply Plant II	Liuku Water				- Dali Water Plant VI (Haidong) (Phase I) — by the end of June 2015; - Lushui Water Supply Plant II — by the end of June 2015; and - Mengzi Wastewater Treatment Plant — by the end of June 2015	Our Directors are of the view that, based on the government confirmations, the advice of our PRC legal adviser and the indemnity undertaking provided by Yunnan Province Water and Beijing OriginWater, it is unlikely that our business operations or financial condition will be materially and adversely affected. As a result, no provision has been made in our consolidated financial statements.
Mengzi Wastewater Treatment Plant	Honghe Water				We have obtained written confirmations from these local government authorities confirming that (i) such buildings are not illegal buildings; (ii) we are entitled to use such buildings prior to obtaining the relevant building ownership certificates; (iii) there is no legal impediment for us to obtain the building ownership certificates for such buildings; and (iv) we will not be subject to penalties for failure to obtain the relevant building ownership certificates. Our PRC legal adviser has advised that, based on the Law of the People's Republic of China on the Administration of Urban Real Estate (《中華人民共和國城市房地產管理法》), (i) Dali Haidong Development Zone Administration Committee is the legal administrative authority for this project and has competent authority to issue the government confirmation; and (ii) the risk of the government confirmation being challenged or revoked by higher-level government authorities is remote. We have obtained an indemnity undertaking provided by Yunnan Province Water and Beijing OriginWater in respect of any losses or expenses which may be incurred by us as a result of such property issue.	

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Project	Project Company	Building Use	Reasons for Not Having Building Ownership Certificates	Legal Consequences	Actions Taken and Status as at the Latest Practicable Date	Potential Operational and Financial Impacts
Jiangbei Tap Water Supply Plant	Jinghong Water	Same as above.	In order to expedite the improvement of the water quality and tap water supply, we were required by the relevant local governments to commence production and operation prior to obtaining the relevant building ownership certificates.	Same as above.	While there is no legal impediment for us to obtain the relevant building ownership certificates, our ability to do so is subject to the completion of the administrative procedures of the local government authorities. We have been communicating with the Jinghong Municipal Housing and Urban-Rural Development Bureau, the Mengla County Housing and Urban-Rural Development Bureau and the Lushui County Urban-Rural Development Bureau and have requested these government authorities to expedite the relevant administrative procedures for issuing the building ownership certificates to us. We expect to obtain the relevant building ownership certificates for these projects by the following times: - Jiangbei Tap Water Supply Plant and Mengpeng Shuntong Tap Water Supply Plant — by the end of September 2015; - Mengla Water Supply Plant and Mengla Wastewater Treatment Plant — by the end of December 2015; and - Liuku Water Supply Plant I — by the end of June 2015. Jiangbei Tap Water Supply Plant and Mengpeng Shuntong Tap Water Supply Plant were owned by Yunnan Province Water prior to being injected into the predecessor of our Company as a capital contribution in 2011, and Mengla Water Supply Plant was owned by the designees of the local governments prior to our acquisition in 2012. When the assets of these three projects were transferred to us, Yunnan Province Water and the designees of the local governments did not provide us with the requisite documents to apply for the relevant building ownership certificates. We have been liaising with Yunnan Province Water and the designees of the local governments to obtain the requisite documents.	Same as above.
Mengpeng Shuntong Tap Water Supply Plant	Mengpeng Water					
Mengla Water Supply Plant	Mengla Water					
Mengla Wastewater Treatment Plant						
Liuku Water Supply Plant I	Liuku Water					

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Project	Project Company	Building Use	Reasons for Not Having Building Ownership Certificates	Legal Consequences	Actions Taken and Status as at the Latest Practicable Date	Potential Operational and Financial Impacts
Same as above.	Same as above.	Same as above.	Same as above.	Same as above.	Our PRC legal adviser has advised that we cannot obtain a building ownership certificate without completing the construction completion inspection and acceptance formalities. As the construction of the supporting pipeline networks for Mengla Wastewater Treatment Plant has not been completed, the construction completion inspection and acceptance formalities cannot be commenced. The local government authority needs sufficient time to complete the supporting pipeline networks for Mengla Wastewater Treatment Plant before we will be able to initiate such inspection and acceptance formalities. We have been communicating with the local government authorities and have requested them to speed up the process for us to obtain the relevant building ownership certificate for this project. For Mengpeng Shuntong Tap Water Supply Plant, Mengla Water Supply Plant, Mengla Wastewater Treatment Plant and Liuku Water Supply Plant I, we have obtained written confirmations from their local government authorities confirming that (i) their foregoing buildings are not illegal buildings; (ii) we are entitled to use such buildings prior to obtaining the relevant building ownership certificates; (iii) there is no legal impediment for us to obtain the building ownership certificates for such buildings; and (iv) we will not be subject to penalties for failure to obtain the relevant building ownership certificates. For Jiangbei Tap Water Supply Plant, we have obtained written confirmation from its local government authority confirming that (i) its foregoing building is not illegal building; (ii) we are entitled to use such building prior to obtaining the relevant building ownership certificate; and (iii) we will not be subject to penalties for failure to obtain the relevant building ownership certificate. Our PRC legal adviser has advised that, based on the Law of the People's Republic of China on the Administration of Urban Real Estate (《中華人民共和國城市房地產管理法》), (i) Jinghong Municipal Housing and Urban-Rural Development Bureau, Mengla County Housing and Urban-Rural Development Bureau and Lushui County Urban-Rural Development Bureau are the legal administrative authorities of these projects and have competent authority to issue the government confirmations; and (ii) the risk of the government confirmations being challenged or revoked by higher-level government authorities is remote. We have obtained an indemnity undertaking provided by Yunnan Province Water and Beijing OriginWater in respect of any losses or expenses which may be incurred by us as a result of such property issue.	Same as above.

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Save as disclosed above, we had obtained the building ownership certificates for all other buildings with respect to our BOO/TOO projects as at the Latest Practicable Date.

During the Track Record Period, prior to the commencement of operation of certain BOO/TOO projects, we had not obtained the relevant building ownership certificates for 83 buildings in respect of these projects with an aggregate floor area of approximately 20,893.4 square metres. We had not obtained such building ownership certificates because: (i) for our BOO/TOO projects, (a) we were required by the relevant local governments to commence operation of the relevant projects prior to obtaining the building ownership certificates in order to expedite the improvement of tap water supply; and (b) we had not yet obtained the land use right certificates for some of our BOO projects which are required to be obtained before we can obtain a building ownership certificate; and (ii) for our TOO projects, the sellers from whom we acquired such projects failed to obtain the building ownership certificates prior to the commencement of operation of the projects. We believe we have implemented adequate and effective internal control measures to prevent the recurrence of such property issues including the commencement of construction work for our projects at the request of local governments without first having the relevant building ownership certificates. See “Business — Properties — Internal Control Measures”.

As advised by our PRC legal adviser, given that (i) we have subsequently obtained the relevant building ownership certificates from the competent government authorities (except for the aforesaid 30 buildings), and (ii) we have obtained written confirmations from the competent government authorities confirming our right to legally use the relevant buildings in accordance with PRC laws and regulations, the risk of us being penalised for lack of building ownership certificates prior to the commencement of operation of our relevant BOO/TOO projects during the Track Record Period is remote.

BOT/TOT projects

Pursuant to the relevant concession agreements for our BOT/TOT projects, (i) the local governments or their designees, which are parties to such concession agreements, are obliged to provide all relevant parcels of land and ancillary buildings for use by us and are required to obtain all land use right certificates, including those for the 24 parcels of land underlying our BOT/TOT projects without land use right certificates; (ii) we are not obliged to obtain the relevant land use right certificates and building ownership certificates; and (iii) the relevant parcels of land and buildings must be transferred back to the local governments upon expiration of the relevant concession period.

Our PRC legal adviser has advised that:

- (i) despite the fact that the local governments or their designees have contractual obligations to obtain the land use right certificates for the 24 parcels of land underlying our BOT/TOT projects without land use right certificates, there are no relevant regulatory requirements under PRC laws or regulations which require us or the local governments or their designees to obtain the land use right certificates/building ownership certificates with respect to our BOT/TOT projects;
- (ii) according to the Land Administration Law of the People's Republic of China (《中華人民共和國土地管理法》) and the Law of the People's Republic of China on the Administration of Urban Real Estate (《中華人民共和國城市房地產管理法》), the local governments at or above the county level have the right to administrate land/buildings and grant and issue land use right certificates/building ownership certificates through their land/real estate administration departments. Based on these laws, the local governments at the county level or their designees are the legal administrative authorities for the relevant land/buildings underlying our BOT/TOT projects and they can legally grant us the right to occupy and use such land/buildings, even if they are not in possession of the land use right certificates/building ownership certificates for such land/buildings;
- (iii) the local governments or their designees have authorised us to occupy and use such land/buildings with respect to our BOT/TOT projects pursuant to the relevant concession agreements;
- (iv) based on the written confirmations we obtained from the competent government authorities, which are the same local government authorities that entered into the concession agreements with us, we are entitled to legally and validly occupy and use the 24 parcels of land underlying our BOT/TOT projects without land use right certificates and their ancillary buildings during the concession periods;
- (v) the risk of the government confirmations being challenged or revoked by higher-level government authorities is remote; and

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- (vi) no land use right certificates for the 24 parcels of land underlying our BOT/TOT projects without land use right certificates have been issued to, or are being applied for, by any party.

In addition, our PRC legal adviser has advised that any failure by the local governments or their designees to obtain such land use right certificates or building ownership certificates does not constitute non-compliance with respect to our operations and will not materially and adversely affect our business operations. Furthermore, there are no legal consequences or risks to us resulting from the failure by the local governments or their designees to obtain such land use right certificates or building ownership certificates.

Land use right certificate

As at the Latest Practicable Date, among the 43 parcels of land underlying our BOT/TOT projects with an aggregate site area of approximately 2,566,078.6 square metres: (i) we had obtained the relevant land use right certificates for six parcels of land with an aggregate site area of approximately 128,732.0 square metres, representing approximately 5.0% of the total site area of the land underlying our BOT/TOT projects; (ii) the relevant local governments or their designees had obtained the relevant land use right certificates for seven parcels of land with an aggregate site area of approximately 163,865.6 square metres, representing approximately 6.4% of the total site area of the land underlying our BOT/TOT projects; (iii) five third-party companies, of which the relevant local governments are the controlling shareholders (except for Ludian Water, which has entered into an agreement with the local government confirming our right to occupy and use the parcel of land underlying Ludian Urban Wastewater Treatment Plant and that it will not reclaim, transfer or mortgage relevant land and buildings to financial institutions or other third parties during the relevant concession period), had obtained the relevant land use right certificates for six parcels of land with an aggregate site area of approximately 178,894.1 square metres, representing approximately 7.0% of the total site area of the land underlying our BOT/TOT projects; and (iv) no land use right certificates had been obtained by any party with respect to the remaining 24 parcels of land with an aggregate site area of approximately 2,094,586.9 square metres, representing approximately 81.6% of the total site area of the land underlying our BOT/TOT projects.

For further details regarding the aforesaid 24 parcels of land, please see the table below:

Project	Project Company	Land Use	Reasons for Not Having Land Use Right Certificates	Legal Consequences	Actions Taken and Status as at the Latest Practicable Date	Potential Operational and Financial Impacts
Cangyuan Wastewater Treatment Plant	Cangyuan Water	Public facilities construction land	As advised by our PRC legal adviser, pursuant to the relevant concession agreements, (i) we are not responsible for applying for the relevant land use right certificates in respect of our BOT/TOT projects; and (ii) we are entitled to legally use the parcels of land underlying such projects during the relevant concession period.	As advised by our PRC legal adviser, (i) we are not legally responsible for applying for the relevant land use right certificates in respect of our BOT/TOT projects; and (ii) we have been granted the right to use the land during the concession period under the concession agreements and are occupying the land lawfully. As a result, we are not subject to any penalty for not having the relevant land use right certificates with respect to these projects.	We have obtained written confirmations from Cangyuan Va Autonomous County People's Government, Gengma Pai and Va Autonomous County People's Government, Jinggu Dai and Yi Autonomous County People's Government, Mile Municipal People's Government, Shuiyu County People's Government, Weixin County People's Government, Yongren County People's Government, Yunlong County People's Government confirming that we are entitled to occupy and use such parcels of land in accordance with the PRC laws and regulations during the concession period.	Our PRC legal adviser is of the view that, based on the government confirmations, (i) we can legally use such parcel of land during the relevant concession period; (ii) such parcel of land does not count as our fixed assets, and will be transferred back to the grantors of the concession rights upon the expiry of the relevant concession period; and (iii) if we are not able to use such parcel of land due to the fault of the grantors of the concession rights, we are entitled to claim against the relevant grantors of the concession rights with respect to any loss we suffered.
Gengma Urban Wastewater Treatment Plant	Gengma Water					
Jinggu Urban Wastewater Treatment Plant	Jinggu Water					
Mile Wastewater Treatment Plant	Mile Water					
Shuiyu Wastewater Treatment Plant	Shuiyu Water					
Weixin Wastewater Treatment Plant	Weixin Water					
Yongren Wastewater Treatment Plant	Yongren Water					
Yunlong Water Supply project	Yunlong Water					
Yunlong Wastewater Treatment Project						

Project	Project Company	Land Use	Reasons for Not Having Land Use Right Certificates	Legal Consequences	Actions Taken and Status as at the Latest Practicable Date	Potential Operational and Financial Impacts
Dayao Wastewater Treatment Plant	Dayao Water	Same as above.	Same as above.	Same as above.	We have obtained written confirmations from Dayao County People's Government, Heqing County People's Government, Lianghe County People's Government, Lufeng County People's Government, Zhenxiong County People's Government, Mojiang Hani Autonomous County People's Government, Yaoan County People's Government and Yongping County People's Government confirming that we are entitled to occupy and use such parcels of land in accordance with the PRC laws and regulations during the concession period.	Same as above.
Heqing Urban Wastewater Treatment Plant	Heqing Water					
Lianghe Wastewater Treatment Plant	Lianghe Water					
Lufeng Wastewater Treatment Plant	Lufeng Water					
Zhenxiong Wastewater Treatment Plant	Zhenxiong Water					
Mojiang Wastewater Treatment Plant	Mojiang Water					
Yaoan Wastewater Treatment Plant	Yaoan Water					
Yongping Wastewater Treatment Plant	Yongping Water					
					Our PRC legal adviser has advised that, based on the Land Administration Law of the People's Republic of China (《中华人民共和国土地管理法》), (i) the abovementioned local governments are the legal administrative authorities of the land where these projects are located and have competent authority to issue the government confirmations; and (ii) the risk of the government confirmations being challenged or revoked by higher-level government authorities is remote.	
					We have obtained an indemnity undertaking provided by Yunnan Province Water and Beijing OriginWater in respect of any losses or expenses which may be incurred by us as a result of such property issue.	

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Project	Project Company	Land Use	Reasons for Not Having Land Use Right Certificates	Legal Consequences	Actions Taken and Status as at the Latest Practicable Date	Potential Operational and Financial Impacts
Emin (Bingdi, Liaoyang) Industrial Park Water Supply Works (Phase I) Project	Emin Water	Same as above.	Same as above.	Same as above.	We have obtained written confirmations from Emin County People's Government, Xinjiang Production and Construction, Group No.7 Division Wuwu Industrial Park Administration Committee, Jinan New Material Industrial Park Administration Committee, Wuxi Xishan District People's Government, Honghe Prefecture People's Government and Menglian County People's Government confirming that we are entitled to occupy and use such parcels of land in accordance with the PRC laws and regulations during the concession period.	Same as above.
Wuwu Industrial Park Wastewater Project	Kelamayi Water					
Jinan New Material Industrial Park Tap Water Supply Plant	Qingzheng Water					
Wuxi Xishan Donggang Wastewater Treatment Plant	Xuzhou Zhongla Water					
Wuxi Xishan Xibei Wastewater Treatment Plant						
Datunhai Wastewater Treatment Project and auxiliary pipe engineering	Our Company				Our PRC legal adviser has advised that, based on the Land Administration Law of the People's Republic of China (《中華人民共和國土地管理法》), (i) the abovementioned local governments, are the legal administrative authorities of the land where these projects locate and have competent authority to issue the government confirmations; and (ii) the risk of the government confirmations being challenged or revoked by higher-level government authorities is remote.	
Menglian Wastewater Treatment Plant	Menglian Water				We have obtained an indemnity undertaking provided by Yunnan Province Water and Beijing OriginWater in respect of any losses or expenses which may be incurred by us as a result of such property issue.	

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Save as disclosed above, we had obtained the land use right certificates for all other parcels of land underlying our BOT/TOT projects as at the Latest Practicable Date.

During the Track Record Period, (i) prior to the commencement of construction of our relevant BOT/TOT projects, neither we nor the local governments or their designees had obtained the relevant land use right certificates for 37 parcels of land underlying these projects with an aggregate site area of approximately 2,382,153.6 square metres; and (ii) prior to the commencement of operation of our relevant BOT/TOT projects, neither we nor the local governments or their designees had obtained the relevant land use right certificates for 23 parcels of land underlying these projects with an aggregate site area of approximately 493,373.2 square metres.

We, the local governments and their designees had not obtained such land use right certificates because: (i) there are no regulatory requirements under PRC laws and regulations which require us or the local governments or their designees to obtain the land use right certificates for our BOT/TOT projects; and (ii) according to the Land Administration Law of the People's Republic of China (《中華人民共和國土地管理法》), the local governments at the county level or their designees can legally grant us the right to occupy and use the land where our BOT/TOT projects are located, even if they are not in possession of the land use right certificates for such land. As advised by our PRC legal adviser, based on the government confirmations we have obtained from the competent government authorities, the risk of us being penalised for failing to obtain land use right certificates prior to the commencement of construction or operation of our relevant BOT/TOT projects during the Track Record Period is remote.

Building ownership certificate

As at the Latest Practicable Date, we occupied a large amount of buildings in respect of our BOT/TOT projects with an aggregate floor area of approximately 55,559 square metres: (i) we had obtained the relevant building ownership certificate for Lancang Wastewater Treatment Plant with an aggregate floor area of approximately 1,120.8 square metres, representing approximately 2% of the total floor area of the buildings in respect of our BOT/TOT projects; and (ii) the relevant building ownership certificates had not been obtained for the remaining 219 buildings with an aggregate site area of approximately 54,438.2 square metres, representing approximately 98% of the total floor area of the buildings in respect of our BOT/TOT projects.

For further details regarding the aforesaid buildings (except for the building owned by Lancang Wastewater Treatment Plant), for which the relevant building ownership certificates had not been obtain, please see the table below:

Project	Project Company	Building Use	Reasons for Not Having Building Ownership Certificates	Legal Consequences	Actions Taken and Status as at the Latest Practicable Date	Potential Operational and Financial Impacts
Jianshui Urban Wastewater Treatment Plant	Jianshui Water	Composite building and other use	As advised by our PRC legal adviser, pursuant to the relevant concession agreements, (i) we are not responsible for applying for the relevant building ownership certificates in respect of our BOT/TOT projects; and (ii) we are entitled to legally use the buildings during the relevant concession period.	As advised by our PRC legal adviser, (i) we are not legally responsible for applying for the relevant building ownership certificates in respect of our BOT/TOT projects; and (ii) we have been granted the right to use the buildings during the concession period under concession agreements and are occupying the properties lawfully. As a result, we are not subject to any penalty for not having the relevant building ownership certificates with respect to these projects.	Regardless of the reasons for not having building ownership certificates, we have obtained written confirmations from Jianshui County Housing and Urban-Rural Development Bureau, Luxi County People's Government, Ludian County People's Government, Lanping Bai and Pumi Autonomous County People's Government, Longchuan County People's Government, Menghai County Housing and Urban-Rural Development Bureau and Wuxi Xishan District People's Government confirming our right to legally use such buildings during the relevant concession period.	Our PRC legal adviser is of the view that, based on the government confirmations, (i) we can legally use such buildings during the relevant concession period; (ii) such buildings do not count as our fixed assets, and will be transferred back to the grantors of the concession rights upon expiry of the relevant concession period; and (iii) if we are not able to use such parcel of land due to the fault of the grantors of the concession rights, we are entitled to claim against the relevant grantors of the concession rights with respect to any loss we suffered.
Luxi Wastewater Treatment Plant	Luxi Water					
Ludian Urban Wastewater Treatment Plant	Ludian Water					
Lanping Wastewater Treatment Plant	Lanping Water					
Longchuan Wastewater Treatment Plant	Longchuan Water					
Menghai Wastewater Treatment Plant	Menghai Water					
Wuxi Xishan Anzhen Wastewater Treatment Plant Phase I Project	Wuxi Zhongfa Water					
Wuxi Xishan Ehu Wastewater Treatment Plant					Our Directors are of the view that, based on the government confirmations and the relevant concession agreements, the advice of our PRC legal adviser and the indemnity undertaking provided by Yunnan Province Water and Beijing OriginWater, it is unlikely that our business operations or financial condition will be materially and adversely affected. As a result, no provision has been made in our consolidated financial statements.	
					We have obtained an indemnity undertaking provided by Yunnan Province Water and Beijing OriginWater in respect of any losses or expenses which may be incurred by us as a result of such property issue.	

Project	Project Company	Building Use	Reasons for Not Having Building Ownership Certificates	Legal Consequences	Actions Taken and Status as at the Latest Practicable Date	Potential Operational and Financial Impacts
Lushui Luku Wastewater Treatment Plant	Lushui Water	Same as above.	Same as above.	Same as above.	We have obtained written confirmations from Lushui County People's Government, Ning'er Han and Yi Autonomous County People's Government, Tengchong County People's Government, Yingjiang County People's Government, Suining County Construction Bureau and Jinming County Housing and Urban-Rural Development Bureau, Nanjian Yi Autonomous County People's Government and Shuangjiang Lahu, Ya, Bulang and Dai Autonomous County People's Government confirming our right to legally use such buildings during the relevant concession period.	Same as above.
Ning'er Wastewater Treatment Plant	Ning'er Water					
Tengchong Wastewater Treatment Plant	Tengchong Water					
Yingjiang Wastewater Treatment Plant	Yingjiang Water					
Jiangsu Suining Economic Development Zone Wastewater Treatment Plant	Xuzhou Zhongfa Water					
Jinming Wastewater Treatment Plant	Guoqing Water					
Nanjian Wastewater Treatment Plant	Nanjian Water					
Shuangjiang Wastewater Treatment Plant	Shuangjiang Water				Our PRC legal adviser has advised that, based on the Law of the People's Republic of China on the Administration of Urban Real Estate (《中華人民共和國城市房地產管理法》), (i) the abovementioned local governments and government authorities are the legal administrative authorities of the right to use such buildings and have competent authority to issue the government confirmations; and (ii) the risk of the government confirmations being challenged or revoked by higher-level government authorities is remote.	We have obtained an indemnity undertaking provided by Yunnan Province Water and Beijing OriginWater in respect of any losses or expenses which may be incurred by us as a result of such property issue.

Project	Project Company	Building Use	Reasons for Not Having Building Ownership Certificates	Legal Consequences	Actions Taken and Status as at the Latest Practicable Date	Potential Operational and Financial Impacts
Cangyuan Wastewater Treatment Plant	Cangyuan Water	Same as above.	As advised by our PRC legal adviser, pursuant to the relevant concession agreements, (i) we are not responsible for applying for the relevant building ownership certificates in respect of our BOT/TOT projects; and (ii) we are entitled to legally use the buildings during the relevant concession period.	Same as above.	We have obtained written confirmations from Cangyuan Va Autonomous County People's Government, Gengma Dai and Wa Autonomous County People's Government, Jinggu Dai and Yi Autonomous County People's Government, Mile Municipal People's Government, Shuifu County People's Government, Weixin County Housing and Urban-Rural Planning and Development Bureau, Yongren County People's Government, Yunlong County People's Government, Dayao County People's Government, Heqing County People's Government and Lianghe County People's Government confirming our right to legally use such buildings during the relevant concession period.	Our PRC legal adviser is of the view that, based on the government confirmations and the relevant concession agreements, (i) we can legally use such buildings during the relevant concession period; (ii) such buildings do not count as our fixed assets, and will be transferred back to the grantors of the concession rights upon expiry of the relevant concession period; and (iii) if we are not able to use such parcel of land due to the fault of the grantors of the concession rights, we are entitled to claim against the relevant grantors of the concession rights with respect to any loss we suffered.
Shuifu Wastewater Treatment Plant	Shuifu Water		As advised by our PRC legal adviser, under the relevant PRC laws and regulations, we cannot obtain the building ownership certificates without having the land use right certificates.			Our Directors are of the view that, based on the government confirmations and the relevant concession agreements, the advice of our PRC legal adviser and the indemnity undertaking provided by Yunnan Province Water and Beijing OriginWater, it is unlikely that our business operations or financial condition will be materially and adversely affected. As a result, no provision has been made in our consolidated financial statements.
Weixin Wastewater Treatment Plant	Weixin Water		See "Business — BOT/TOT projects — Land use right certificate" for the reason for not having the land use right certificates.			
Yongren Wastewater Treatment Plant	Yongren Water					
Yunlong Wastewater Treatment Plant	Yunlong Water					
Yunlong Water Supply Project						
Dayao Wastewater Treatment Plant	Dayao Water					
Heqing Urban Wastewater Treatment Plant	Heqing Water					
Lianghe Wastewater Treatment Plant	Lianghe Water					
					We have obtained an indemnity undertaking provided by Yunnan Province Water and Beijing OriginWater in respect of any losses or expenses which may be incurred by us as a result of such property issue.	

Project	Project Company	Building Use	Reasons for Not Having Building Ownership Certificates	Legal Consequences	Actions Taken and Status as at the Latest Practicable Date	Potential Operational and Financial Impacts
Lufeng Wastewater Treatment Plant	Lufeng Water	Same as above.	Same as above.	Same as above.	We have obtained written confirmations from Lufeng County People's Government, Zhenxiong County Housing and Urban-Rural Development Bureau, Mojiang Hani Autonomous County People's Government, Yaoan County People's Government, Yongping County People's Government, Jinan New Material Industrial Park Administration Committee, Wuxi Xishan District People's Government and Menglian County People's Government confirming our right to legally use such buildings during the relevant concession period.	Same as above.
Zhenxiong Water Treatment Plant	Zhenxiong Wastewater					
Mojiang Wastewater Treatment Plant	Mojiang Water					
Yaoan Wastewater Treatment Plant	Yaoan Water					
Yongping Wastewater Treatment Plant	Yongping Water					
Jinan New Material Industrial Park Tap Water Supply Plant	Qingzheng Water					
Wuxi Xishan District Donggang Wastewater Treatment Plant	Xuzhou Zhongfa Water					
Wuxi Xishan Xibei Wastewater Treatment Plant						
Menglian Wastewater Treatment Plant	Menglian Water				Our PRC legal adviser has advised that, based on the Law of the People's Republic of China on the Administration of Urban Real Estate (《中華人民共和國城市房地產管理法》), (i) the abovementioned local governments and government authority are the legal administrative authorities of the right to use such buildings and have competent authority to issue the government confirmations; and (ii) the risk of the government confirmations being challenged or revoked by higher-level government authorities is remote.	
					We have obtained an indemnity undertaking provided by Yunnan Province Water and Beijing OriginWater in respect of any losses or expenses which may be incurred by us as a result of such property issue.	

Project	Project Company	Building Use	Reasons for Not Having Building Ownership Certificates	Legal Consequences	Actions Taken and Status as at the Latest Practicable Date	Potential Operational and Financial Impacts
Jinan New Material Industrial Park Wastewater Treatment Plant	Qingzheng Water	Same as above.	These projects are construction-in-progress. As advised by our PRC legal adviser, under the relevant PRC laws and regulations, we cannot obtain the building ownership certificates until the construction-in-progress has passed the completion inspection and acceptance formalities.	Same as above.	N/A	N/A
Jinan Lingang Economic Development Zone Wastewater Treatment Plant Phase I Project	Shandong Lingang Water					
Emin (Bingdi, Liaoyang) Industrial Park Water Supply Works (Phase I) Project	Emin Water					
Wuwu Industrial Park Wastewater Project	Kelamayi Water		Furthermore, as advised by our PRC legal adviser, pursuant to the relevant concession agreements, (i) we are not responsible for applying for the relevant building ownership certificates in respect of our BOT/TOT projects; and (ii) we are entitled to legally use the buildings during the relevant concession period.			
Diannan Central City Dafun Sea Wastewater Treatment Project and auxiliary pipe engineering	Our Company					

Save as disclosed above, we had obtained the building ownership certificate for all the buildings with respect to our BOT/TOT projects as at the Latest Practicable Date.

During the Track Record Period, prior to the commencement of operation of our BOT/TOT projects, neither we nor the local governments or their designees had obtained the relevant building ownership certificates for 220 buildings of our BOT/TOT projects with an aggregate floor area of approximately 55,559 square metres. Neither we nor the local governments or their designees had obtained such building ownership certificates because: (i) there are no regulatory requirements under PRC laws and regulations which require us or the local governments or their designees to obtain building ownership certificates for our BOT/TOT projects; (ii) neither we nor the local governments or their designees had obtained the land use right certificates for some of our BOT projects and under the relevant PRC laws and regulations, applicants cannot obtain a building ownership certificate without first obtaining the relevant land use right certificate; (iii) according to the Administration of Urban Real Estate (《中華人民共和國城市房地產管理法》), the local governments at county level or their designees can legally grant us the right to occupy and use the buildings of our BOT/TOT projects, even if they are not in possession of the building ownership certificates for such buildings. As advised by our PRC legal adviser, based on the government confirmations we have obtained from the relevant and competent government authorities, the risk of us being penalised for failing to obtain building ownership certificates prior to the commencement of operation of our relevant BOT/TOT projects during the Track Record Period is remote.

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Safety conditions

During the Track Record Period up to the Latest Practicable Date, we had never been penalised by any government authority over safety conditions concern in respect of the buildings for which we have not obtained the relevant building ownership certificates or undertaken the completion inspection of construction work as required under the relevant local rules and regulations. Our Directors are of the view that such buildings are safe for occupation based on construction quality control test carried out by third-party construction supervisors.

Our Directors are of the view that, based on the government confirmations where applicable, the relevant concession agreements, the advice of our PRC legal adviser and the indemnity undertaking provided by Yunnan Province Water and Beijing OriginWater, it is unlikely that we will be subject to penalties or other legal consequences, nor will our business operations or financial condition be materially and adversely affected, as a result of the aforesaid property issues. Based on the above, our Directors are also of the view that the land and buildings with defective titles as at the Latest Practicable Date were not collectively material to our business operations. As a result, no provision has been made in our consolidated financial statements.

Property owned by us underlying the Membrane Production Plant

As at the Latest Practicable Date, we occupied one parcel of land with an aggregate site area of 40,000 square metres where our Membrane Production Plant is located, and we have obtained the relevant land use right certificate for this parcel of land. As at the Latest Practicable Date, we occupied six buildings with an aggregate site area of approximately 17,420 square metres, which we used as composite buildings and other purposes in respect of the Membrane Production Plant. We have submitted our application to the Kunming High-tech Industrial Development Zone Housing and Urban-Rural Development Bureau to obtain the relevant building ownership certificates for such buildings. We have obtained a written confirmation from the Kunming High-tech Industrial Development Zone Housing and Urban-Rural Development Bureau confirming that (i) such buildings are not illegal buildings, (ii) we are entitled to use such buildings prior to obtaining the relevant building ownership certificates, (iii) there is no legal impediment for us to obtain the building ownership certificates for such buildings, and (iv) we will not be subject to penalties for failure to obtain the relevant building ownership certificates.

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We expect that the local government authority will perform the completion inspection and acceptance formalities and we will obtain the building ownership certificates by July 2015. As advised by our PRC legal adviser, based on the Law of the People's Republic of China on the Administration of Urban Real Estate (《中華人民共和國城市房地產管理法》) and the government confirmation received, (i) the Kunming High-tech Industrial Development Zone Housing and Urban-Rural Development Bureau is the legal administrative authority for the Membrane Production Plant and is the competent authority to issue the government confirmation, (ii) the risk of the government confirmation being challenged or revoked by higher-level government authorities is remote, and (iii) after completing the completion inspection and acceptance formalities with respect to the Membrane Production Plant, there will be no legal impediment for us to obtain the building ownership certificates for such buildings.

Properties leased by us

As at the Latest Practicable Date, we had leased 21 buildings with an aggregate floor area of over 6,313.5 square metres, which are primarily used as our office premises. The lessors have failed to obtain the relevant building ownership certificates or relevant written consent to lease such properties to us from interested parties in respect of nine of these buildings with an aggregate floor area of over 470.0 square metres. However, as these properties are primarily used as our office premises rather than for production or operation, we are able to relocate promptly to substitutive premises without causing material and adverse impact to our operations or financial condition.

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For further details regarding these nine buildings, please see the table below:

Project Company	Legal Consequences	Rectification Actions Taken and Status as at the Latest Practicable Date	Potential Operational and Financial Impacts
Shangdong Lingang Water Daguan Water Kelamayi Water Yuxi Clean Yanjin Water Yongshan Water Dianzhong Water Huoerguosi Haorui Water Dali Water Secondary Water Supply	As advised by our PRC legal adviser, due to the lessors' failure to obtain the relevant building ownership certificates for the buildings leased by us, the relevant lease agreements may be deemed invalid and we may be forced to vacate such properties. We will not be subject to any penalties.	We have actively communicated with the lessors and urged them to obtain the relevant building ownership certificates on a timely basis. We are not in a position to estimate the required timeframe for obtaining the building ownership certificates by the lessors as this is subject to the efficiency of the lessors and the local governments. We have obtained an indemnity undertaking provided by Yunnan Province Water and Beijing OriginWater in respect of any losses or expenses which may be incurred by us as a result of the lack of the building ownership certificates of the lessors.	Based on (i) we had not been involved in any litigation disputes or penalised by any competent government authorities due to the lack of the building ownership certificates of the lessors during the Track Record Period and as at the Latest Practicable Date, and (ii) the nine buildings leased by us are primarily for our office use and can be replaced by other comparable alternative premises, our PRC legal adviser has advised that, (i) we are not subject to penalty due to the lack of the building ownership certificates of the lessors; and the lack of the building ownership certificates of the lessors will not materially or adversely affect our business operations. Based on the fact that such buildings are primarily used as our office premises rather than for production or operations and we are able to relocate to other legal and substitutive premises promptly in the event that we are forced to vacate such properties and the indemnity undertaking provided by Yunnan Province Water and Beijing OriginWater, our Directors are of the view that the lessors' lack of building ownership certificates will not materially and adversely affect our operations or financial condition. Our Directors estimate that if we were to relocate, we will pay a total rental of approximately RMB8,000.0 per month and such relocation will take two days to complete.

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Properties used by us in connection with our BT, EPC and O&M projects

As at the Latest Practicable Date, we had not obtained the land use right certificates/building ownership certificates for our BT, EPC and O&M projects because, as advised by our PRC legal adviser: (i) there are no relevant regulatory requirements under PRC laws and regulations or there are no contractual arrangements for such projects which require us to obtain the relevant land use right certificates/building ownership certificates; and (ii) the contractual arrangements for such projects require the local governments or their designees to obtain the relevant land use right certificates/building ownership certificates. In addition, our PRC legal adviser has also advised that our rights under the contractual arrangements for these projects are not contingent upon the local governments or their designees obtaining the land use right certificates/building ownership certificates for these projects.

Difference of land cost or rental

We are not aware of any difference of land cost or rental we would have to pay if the properties did not have defective titles.

Internal Control Measures

Based on the recommendations of BDO, our internal control consultant, we have implemented the following internal control measures to prevent the future occurrence of property issues such as those disclosed in the above tables. The internal control consultant is of the opinion that, as at the Latest Practicable Date, our internal control measures below were adequate and effective, in all material respects, to prevent the re-occurrence of such issues.

Measures relating to land use right certificates and building ownership certificates

1. Only new projects approved by the Compliance Committee are eligible for submission to our Board for further discussion and consideration. The Compliance Committee will veto and reject any new projects with material non-compliance issues. This will allow the Compliance Committee to effectively prevent the commencement of construction/operation of our concession projects at the request of local governments prior to obtaining the relevant land use right certificates/building ownership certificates. The Compliance Committee is responsible for compiling reports regarding such material non-compliance issues. Such reports are submitted by the Compliance Committee to our Board for their record.

The Compliance Committee is also responsible for overseeing the implementation of internal control measures relating to land use right certificates and building ownership certificates and compiling reports or proposals regarding our compliance with such internal control measures. Such reports or proposals are submitted to our Board for their consideration and record. A regular review meeting is held every six months and a special meeting is held every quarter by the members of the

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Compliance Committee. An ad hoc meeting may be held as needed. After each of these meetings, the reports or proposals mentioned above are submitted to the Board immediately. Our Company's legal department assists the Compliance Committee in overseeing the implementation of the internal control measures and ensures compliance on a continuous basis.

2. We established "fixed asset/intangible asset management procedures" in July 2014. Under these procedures, our asset utilisation department is responsible for ensuring effective communication with the local government authorities and applying for and obtaining land use right certificates and building ownership certificates for our land and buildings in a timely manner. Our asset utilisation department is also responsible for safekeeping and maintaining our land use right certificates and building ownership certificates, and collecting information and formulating plans to reinforce the management of land use right certificates and building ownership certificates. It should fully and timely understand the completeness of our land use right certificates and building ownership certificates files, and timely follow up on such application procedures.
3. Our project management department is in charge of supervising our foregoing asset utilisation department to ensure completion of all necessary formalities and obtaining all necessary land use right certificates and building ownership certificates in a timely manner.
4. We set up new requirements for any existing or new concession arrangements that involve land use rights in July 2014. As part of the review process for the projects, our external legal adviser is responsible for assisting in reviewing the contract terms to ensure that the counterparty will have the obligation to provide land use right certificates, if applicable, to be registered in the name of the relevant project company.
5. The manager of the legal department is responsible for regularly inspecting the land use right certificates and building ownership certificates for our properties. In addition, the legal department is responsible for ensuring that the compliance inspection of certificates and licenses will be conducted at least once a year.
6. Under the supervision of the manager of the finance department, the cashier of the finance department and the asset management department jointly conduct a stock take of our assets at the end of each year to verify the completeness and status of our legal documents, such as the ownership documents of our assets. If they discover any deficiency, they will investigate the reason for the deficiency and notify the relevant department to rectify such deficiency and complete any outstanding procedures in a timely manner.
7. We have engaged Jia Yuan Law Offices as external PRC legal adviser since October 2013 to provide assistance on any legal and compliance matters relating to the land use right certificates and building ownership certificates.

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8. The internal review department is responsible for conducting an annual inspection regarding compliance with the above measures. The inspection is part of the internal review work, or a joint inspection will be conducted with the legal department, as appropriate and the results will be reported to our Board.

The above measures are equally applicable to the management and control of any companies/projects to be developed by us or acquired by us during the due diligence process, in particular the land use right certificates and building ownership certificates, and the post-development and post-acquisition operation process, to ensure the operation of any companies/projects to be developed by us or acquired by us are in compliance with our control standards and the relevant PRC laws and regulations.

BDO performed an initial review on the above internal control measures (except for the establishment of the Compliance Committee) in August 2014 and follow-up reviews from September to October 2014. BDO performed an initial review on the establishment of the Compliance Committee at the end of January 2015. Based on these reviews, BDO is of the view that, as of the Latest Practicable Date, sufficient and adequate internal control measures were in place.

Views of Our Directors, Company and Sole Sponsor

After adopting the above internal control measures, our Directors are of the view that we have adequate internal control measures in place for our property related issues in the future, which will be implemented based on the recommendations of BDO, and therefore are able to comply with the internal control requirements under the Listing Rules. Based on (i) the due diligence enquiries conducted by the Sole Sponsor in relation to internal control systems; (ii) the Sole Sponsor's discussions with the internal control consultant; (iii) the review of the internal control related documents, information and confirmation provided by us; (iv) the remedial measures adopted by us; (v) the Sole Sponsor's discussions with our PRC legal advisers; (vi) our Directors' views set out in this prospectus; and (vii) expert opinion of BDO, our internal control consultant, the Sole Sponsor is satisfied that the enhanced internal controls for property related compliance are adequate and effective.

EMPLOYEES

Our employees are critical to our success. Through our well-established training and recruitment policies, we dedicate significant resources to personnel recruitment, training and promotion. We offer attractive remuneration packages, which include basic and variable wages, discretionary bonuses, staff benefits and more importantly, share awards to our employees.

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As at 31 December 2014, we had 1,739 full-time employees, most of whom were based in Yunnan. The following table sets out our employees by job function:

	Number of employees	Percentage of total employees
Operation	1,185	68.1%
Administration and Management	160	9.2%
Construction Management	86	4.9%
Sales and Marketing	91	5.2%
Accounting	87	5.0%
Technical	50	2.9%
Financing	4	0.2%
Others	76	4.4%
Total	1,739	100%

In accordance with the relevant PRC laws and regulations, we make social insurance and housing provident fund contributions based on the actual salaries of our employees, except for three of our subsidiaries, namely Beijing Clean (in respect of social insurance and housing provident fund), Wuxi Zhongfa Water and Xuzhou Zhongfa Water (both in respect of housing provident fund only). Such three subsidiaries have made contributions based on the local minimum wages of the relevant employees only. We acquired Beijing Clean in January 2014, and Wuxi Zhongfa Water and Xuzhou Zhongfa Water in May 2014. According to the relevant acquisition agreements, the original shareholders of the three subsidiaries undertook to bear all liabilities arising from any failure to make sufficient contributions prior to the acquisitions. Subsequent to the acquisitions and up to the Latest Practicable Date, the shortfall of such contributions was immaterial and less than RMB0.4 million. We have been communicating with the relevant authorities and have requested them to process our application for settling the shortfall, but the authorities are reluctant to process our application. In addition, we have obtained a written indemnity undertaking provided by Yunnan Province Water and Beijing OriginWater in respect of any losses or expenses which may be payable by us as a result of such shortfall.

INSURANCE

We maintain insurance for our employees covering accident claims arising during the course of the construction and operation of our projects. We do not maintain insurance for the construction and operation of our projects or the properties or raw materials used in our operations. We believe that the coverage of our existing insurance policies are adequate for our present operations and consistent with industry practice. See “Risk Factors — Risks Relating to Our Business and Industry — Our insurance coverage may not adequately cover the risks related to our business and operations”. Our concession agreements of our projects in operation and under construction do not require us to take out additional insurance. During the Track Record Period and up to the Latest Practicable Date, we had not received any

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complaints from our customers or penalties from the relevant authorities in relation to the insurance coverage for our projects. Where we sub-contract our construction works, our contracting agreements provide that the contractors bear liabilities and losses arising from the portions for which they are responsible.

ENVIRONMENT, HEALTH AND SAFETY

We regard environmental protection and occupational health and safety as an important social responsibility.

Environment

We are subject to various PRC environmental laws and regulations, including 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. See “Regulatory Environment”. The new Environmental Protection Law came into effect on 1 January 2015. See “Regulatory Environment — PRC Laws and Regulations Relating to Environmental Protection”. As the new Environmental Protection Law does not impose more stringent requirements on our business operations, we will not likely encounter any material difficulty or incur substantial costs for compliance. Moreover, as the new Environmental Protection Law sets severer punishments for polluters, it is expected that the unlawful discharging of over-polluted wastewater will significantly decrease, which in turn will reduce the likelihood that we will receive and treat over-polluted wastewater.

For the years ended 31 December 2012, 2013 and 2014, our expenditures for environmental compliance were RMB5.3 million, RMB7.8 million and RMB4.5 million, respectively.

Save as disclosed in “Business — Non-compliance”, we have obtained all material environmental licenses and permits for each of our projects based on their respective stages of development and have complied in all material respects with the relevant environmental protection laws and regulations during the Track Record Period and up to the Latest Practicable Date.

Health and safety

Pursuant to the relevant PRC laws and regulations, we are required to provide our employees with a safe working environment which includes, among other things, providing adequate protective clothing and gear, providing safety education and training and having dedicated safety management personnel. We also conduct regular inspections and maintenance checks on our equipment to ensure they meet the applicable national or industrial standards with respect to their designs, manufacturing, installation and usage.

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We believe our health and safety control measures are adequate and comply with applicable laws and regulations in all material respects. During the Track Record Period and up to the Latest Practicable Date, none of our employees had been involved in any major accident in the course of their employment and 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 the PRC.

LEGAL PROCEEDINGS

As at the Latest Practicable Date, there were no pending or threatened litigation, arbitration, or administrative penalties, and we were not involved in litigation or other proceedings which would materially and adversely affect our business, financial condition or results of operations. Our PRC legal advisers are of the view that, save as disclosed in “Business — Non-compliance”, we complied with all applicable PRC laws and regulations in all material respects, and had obtained permits, licenses, qualifications, authorisations and approvals material to our business operations during the Track Record Period and up to the Latest Practicable Date.

LICENSES AND PERMITS

The principal licenses and permits required to conduct our business in the PRC primarily include (i) wastewater discharge permits (排污許可證) for operating our wastewater treatment facilities; and (ii) health permits (衛生許可證), urban water supply enterprise operating permits (城市供水企業經營許可證) and water intake licenses (取水許可證) for operating our tap water supply facilities. For more information regarding the laws and regulations that we are subject to in the PRC, see “Regulatory Environment”.

As at the Latest Practicable Date, nine of our subsidiaries had only obtained temporary wastewater discharge permits because: (i) the construction of the supporting pipeline networks for these nine wastewater treatment projects had been delayed by the local governments, resulting in us not being able to perform the environmental protection acceptance formalities, which is a prerequisite to obtaining a formal wastewater discharge permit; and (ii) in order to expedite the improvement of tap water supply, the local governments required us to commence operation of these nine wastewater treatment plants and issued temporary wastewater discharge permits to us. As advised by our PRC legal adviser, (i) based on the Yunnan Province Trial Administration Measure for Pollutant Discharge Permit (《雲南省排放污染物許可證管理辦法(試行)》), (a) the formal wastewater discharge permits can only be issued once the construction of the supporting pipeline networks for these wastewater treatment plants and the environmental protection acceptance formalities have been completed; (b) we can renew the temporary wastewater discharge permits within 30 days before the expiry dates of such temporary wastewater discharge permits; and (ii) as at the Latest Practicable Date, all such temporary wastewater discharge permits were legal and valid. As advised by our PRC legal adviser, there is no legal impediment for us to obtain formal wastewater discharge permits for these nine subsidiaries after completing the environmental protection inspection and acceptance formalities and submitting the application documents.

BUSINESS

The following table sets out the details regarding such nine subsidiaries and their temporary wastewater discharge permits:

Subsidiary	Project	For the years ended 31 December			Expiry date of temporary wastewater discharge permit	Expected date to obtain renewed temporary wastewater discharge permit or formal wastewater discharge permit
		2012	2013	2014		
		Operation Revenue ⁽⁹⁾	Operation Revenue ⁽⁹⁾	Operation Revenue ⁽⁹⁾		
		(RMB million)				
Mengla Water ⁽¹⁾	Mengla Wastewater Treatment Plant	nil	nil	nil	31 December 2015	By 31 December 2015
Lianghe Water ⁽²⁾	Lianghe Wastewater Treatment Plant	nil	0.8	1.2	30 June 2015	By 30 June 2015
Shuifu Water	Shuifu Wastewater Treatment Plant	1.8	3.3	4.7	24 August 2015	By 24 August 2015
Menghai Water ⁽³⁾	Menghai Wastewater Treatment Plant	nil	1.7	2.1	31 December 2015	By 31 December 2015
Yingjiang Water ⁽⁴⁾	Yingjiang Wastewater Treatment Plant	nil	1.4	3.8	31 May 2015	By 31 May 2015
Yunlong Water ⁽⁵⁾	Yunlong Wastewater Treatment Plant	nil	0.04	0.8	27 August 2015	By 27 August 2015
Yongping Water ⁽⁶⁾	Yongping Wastewater Treatment Plant	nil	nil	1.3	15 June 2015	By 15 June 2015
Dayao Water ⁽⁷⁾	Dayao Wastewater Treatment Plant	nil	0.6	1.6	1 July 2015	By 1 July 2015
Lanping Water ⁽⁸⁾	Lanping Wastewater Treatment Plant	nil	1.2	1.3	3 February 2016	By 3 February 2016

Notes:

- (1) As Mengla Water was not in operation in 2012, 2013 and 2014, we did not record the operation revenue for this project company for 2012, 2013 and 2014.
- (2) As Lianghe Water was not in operation in 2012, we did not record the operation revenue for this project company for 2012.
- (3) As Menghai Water was not in operation in 2012, we did not record the operation revenue for this project company for 2012.
- (4) As Yingjiang Water was not in operation in 2012, we did not record the operation revenue for this project company for 2012.
- (5) As Yunlong Water was not in operation in 2012, we did not record the operation revenue for this project company for 2012.
- (6) As Yongping Water was not in operation in 2012 and 2013, we did not record the operation revenue for this project company for 2012 and 2013.
- (7) As Dayao Water was not in operation in 2012, we did not record the operation revenue for this project company for 2012.
- (8) As Lanping Water was not in operation in 2012, we did not record the operation revenue for this project company for 2012.
- (9) The operation revenue for each of the nine project companies stated in this table is directly extracted from our management accounts and has not been audited.

BUSINESS

For our BOO/BOT projects, after we have entered into the relevant concession agreements, the competent government authorities or third party companies assist us with obtaining the various certificates and permits that we need in order to commence construction of the wastewater treatment or water supply facilities, which are set out below:

1. Project establishment approval (立項) — approval issued by the development and reform commission at a competent administrative level for project establishment;
2. Environmental impact assessment (環境影響評價) — a procedure required for assessment of the environmental impact of a construction project;
3. Construction land use planning permit (建設用地規劃許可證) — a permit authorising an entity to begin the survey, planning and design of a parcel of land;
4. Construction planning permit (建設工程規劃許可證) — a certificate indicating government approval for an entity's overall planning and the design of a project; and
5. Construction work commencement permit (建築工程施工許可證) — a permit required for the commencement of construction of a project;
6. Environmental protection inspection and acceptance formalities (環保驗收手續) — formalities required for the completion of environmental protection construction work for a project; and
7. Completion inspection and acceptance formalities (工程竣工驗收手續) — formalities required for the completion of construction work for a project.

For our TOO projects, after we have entered into the relevant concession agreements, we obtain the land use rights in respect of the land and the building ownership certificates in respect of buildings and structures built by the competent government authorities or third party companies. We apply for construction land use planning permits, construction planning permits and construction work commencement permits and handling environmental protection, inspection and acceptance formalities, and completion, inspection and acceptance formalities when we need to upgrade the construction of a wastewater treatment or water supply facility. For our TOT projects, we obtain the buildings and structures which have been built by the local governments or their designees or third-party companies.

NON-COMPLIANCE

Except as disclosed hereunder, we complied with the applicable PRC laws and regulations in all material respects during the Track Record Period and up to the Latest Practicable Date. Set out below is a summary of our material non-compliance incidents during the Track Record Period and up to the Latest Practicable Date:

No.	Responsible Party	Historical Non-compliance	Reasons for the Non-compliance	Legal Consequences and Potential Maximum and Other Financial Liabilities	Rectification Actions Taken and Status as at the Latest Practicable Date	Potential Operational and Financial Impact
1.	Lanping Water and Longchuan Water	We failed to (i) complete the environmental protection acceptance formalities; and (ii) obtain the wastewater discharge permits prior to the production and operation of the Lanping Wastewater Treatment Plant and Longchuan Wastewater Treatment Plant.	The construction of the supporting pipeline networks for these wastewater treatment projects had been delayed by the local governments, resulting in us not being able to complete the environmental protection acceptance formalities, which is a prerequisite to obtaining wastewater discharge permits. In order to expedite the improvement of the water quality in Lanping County and Longchuan County in Yunnan, we were required by the relevant local governments to commence production and operation of these wastewater treatment projects before the environmental protection acceptance formalities had been completed and the wastewater discharge permits had been obtained. Such local governments are higher-level authorities than the local government authorities which are responsible for issuing wastewater discharge permits.	As advised by our PRC legal adviser, (i) if the main part of a wastewater treatment facility is put into operation or use before the completion of the environmental protection acceptance formalities, the competent environmental protection authorities of the local people's government at or above the county level shall order the developer to stop operation or use until they are accepted as meeting the relevant government standard. In addition, the relevant government authority may impose a fine of not less than RMB50,000 but not more than RMB0.5 million for each project. We may be ordered to suspend our production and operation and/or be subject to penalties of up to a total of RMB1.0 million.	We obtained the wastewater discharge permit for the Longchuan Urban Wastewater Treatment Plant on 27 January 2015 and a temporary wastewater discharge permit for the Lanping Urban Wastewater Treatment Plant on 4 February 2015. Prior to obtaining the above permits, we had obtained a written confirmation from the Yunnan Province Environment Protection Department confirming that, (i) we were not able to obtain the wastewater discharge permit because the construction of the supporting pipeline networks for these wastewater treatment projects had been delayed by the local government, resulting in us not being able to proceed with the environmental protection acceptance formalities, which is a prerequisite for obtaining the wastewater discharge permit; and (ii) we are permitted to continue our production and operation prior to obtaining the wastewater discharge permits. In addition, our PRC legal adviser interviewed a responsible official of the Yunnan Province Environment Protection Department on 29 July 2014, pursuant to which such government authority confirmed that it is unlikely to impose any penalty on us for the lack of wastewater discharge permits. Our PRC legal adviser has advised that, based on the Administrative Measures (Trial Implementation) on Yunnan Province Waste Discharge Permits (《雲南省非放污物管理辦法(試行)》), (i) Yunnan Province Environment Protection Department is the competent authority and is of sufficient level to issue the government confirmation; and (ii) the risk of the government confirmation being challenged or revoked by higher-level government authorities is remote.	Our PRC legal adviser is of the view that, based on the government confirmation and the wastewater discharge permit and temporary wastewater discharge permit we obtained, the advice of our PRC legal adviser and the indemnity undertaking provided by Yunnan Province Water and Beijing OriginWater, such non-compliance incident will not materially and adversely affect our business operations or financial condition and as a result, no provision has been made in our consolidated financial statements. The investment amounts of Lanping Wastewater Treatment Plant and Longchuan Wastewater Treatment Plant are RMB10.0 million and RMB12.8 million respectively. For the years ended 31 December 2012, 2013 and 2014, (i) the revenue contributed by Lanping Water was RMB7.3 million, RMB5.9 million and RMB3.1 million, respectively; and (ii) the revenue contributed by Longchuan Water was RMB1.5 million, RMB1.7 million and RMB1.9 million, respectively⁽¹⁾.

Note:

(1) The revenue of each of the two project companies stated in the above table is directly extracted from our management accounts and has not been audited.

No.	Responsible Party	Historical Non-compliance	Reasons for the Non-compliance	Legal Consequences and Potential Maximum and Other Financial Liabilities	Rectification Actions Taken and Status as at the Latest Practicable Date	Potential Operational and Financial Impact
1.	See above.	See above.	See above.	See above.	We have obtained a written indemnity undertaking provided by Yunnan Province Water and Beijing OriginWater in respect of any losses or expenses which may be payable by us as a result of such non-compliance incident. We have adopted enhanced internal control measures and provided relevant training to employees to avoid recurrence of such non-compliance incident. See "Business — Non-Compliance — Internal Control Measures — Measures relating to wastewater discharge permits and water intake permits".	See above.
2.	Dali Water	We failed to obtain the water intake permit prior to the production and operation of the Dali Water Supply Plant VI (Hai Dong) (Phase I).	In order to expedite the improvement of tap water supply, we were required by the relevant local government to commence production and operation prior to obtaining the water intake permit. Such local government is a higher-level authority than the local government authority which is responsible for issuing water intake permits.	As advised by our PRC legal adviser, if an entity fails to obtain the water intake permit prior to its production and operation, a fine of not less than RMB20,000 but not more than RMB50,000 may be imposed on each non-compliant entity.	While there is no legal impediment for us to obtain the water intake permit, our ability to do so is subject to the completion of the administrative procedures of the local government authority. We have been communicating with Dali Water Bureau and have requested it to process our application for water intake permit. We expect to obtain the water intake permit by the end of June 2015. We have obtained a written confirmation from Dali Water Bureau confirming that, (i) we are permitted to continue our production and operation prior to obtaining the water intake permit; and (ii) there is no legal impediment for us to obtain the water intake permit.	Our PRC legal adviser is of the view that, based on the government confirmation, the risk of us being penalised for lack of water intake permit is remote. For the years ended 31 December 2012, 2013 and 2014, the revenue contributed by Dali Water⁽¹⁾ was RMB72.0 million, RMB91.0 million and RMB292.1 million, respectively. For the years ended 31 December 2012, 2013 and 2014, the revenue contributed by Dali Water Supply Plant VI⁽²⁾ was nil, nil and nil, respectively⁽¹⁾. Our Directors are of the view that, based on the government confirmation, the advice of our PRC legal adviser and the indemnity undertaking provided by Yunnan Province Water and Beijing OriginWater, such non-compliance incident will not materially and adversely affect our business operations or financial condition and as a result, no provision has been made in our consolidated financial statements.

Notes:

- (1) The revenues of Dali Water and Dali Water Supply Plant VI stated in the above table are based on our management accounts and have not been audited.
- (2) Dali Water owns other projects in addition to Dali Water Supply Plant VI. As a result, the revenue of Dali Water Supply Plant VI disclosed above is not directly extracted from the management account of Dali Water but is based on an estimation made by our Directors. In estimating such revenue, our Directors relied on the amount of tap water discharged by Dali Water Supply Plant VI relative to the total amount of tap water discharged by Dali Water.

No.	Responsible Party	Historical Non-compliance	Reasons for the Non-compliance	Legal Consequences and Potential Maximum and Other Financial Liabilities	Rectification Actions Taken and Status as at the Latest Practicable Date	Potential Operational and Financial Impact
2.	See above.	See above.	See above.	See above.	We have adopted enhanced internal control measures and provided relevant training to employees to avoid recurrence of such non-compliance incident. See 'Business — Non-Compliance — Internal Control Measures — Measures relating to environmental inspection and acceptance formalities, wastewater discharge permits and water intake permits'.	See above.

No.	Responsible Party	Historical Non-compliance	Reasons for the Non-compliance	Legal Consequences and Potential Maximum and Other Financial Liabilities	Rectification Actions Taken and Status as at the Latest Practicable Date	Potential Operational and Financial Impact
3.	Our Company, Jinghong Water and various counterparties	Acting as a lender: Our company and Jinghong Water made advances ("Advances") to (i) YMCi, Yunnan Province Water and OriginWater Technology (three members of the YMCi Group), (ii) Beijing OriginWater, (iii) Jinghong Urban Investment (our connected person other than the YMCi Group and Beijing OriginWater), and (iv) Yunnan Zhongyuan Industry Group Co., Ltd (雲南中原實業集團有限公司) ("Zhongyuan Industry Group") (an Independent Third Party), in contravention of the Lending General Provisions. All of the foregoing companies are collectively referred to as the "Borrowers". The Advances were non-trade in nature and unsecured with a pre-agreed interest rate ranging from nil to 10%. As at 31 December 2012, 2013 and 2014, the outstanding balances of the Advances to the Borrowers amounted to RMB491.6 million, RMB173.7 million and nil, respectively. In addition, for the years ended 31 December 2012, 2013 and 2014, the interest income we obtained arising out of the Advances amounted to RMB12.0 million, RMB11.7 million and RMB1.4 million, respectively. During the Track Record Period, our maximum outstanding balance of the Advances to the YMCi Group, Beijing OriginWater, our connected person other than the YMCi Group and Beijing OriginWater and the Independent Third Party were RMB432.8 million, RMB33.0 million, RMB21.0 million and RMB30.0 million, respectively.	The Advances were made: (i) for the purpose of meeting the general working capital needs of each of the Borrowers upon its request; and (ii) because our relevant management personnel were not aware of the prohibition as prescribed under the Lending General Provisions. In addition to the above, the Advances to the YMCi Group were made in accordance with the internal treasury policies of the YMCi Group.	As advised by our PRC legal adviser, in view of the Lending General Provisions and the Official Reply of the Supreme People's Court on How to Deal with the Failure to Repay the Loan by the Borrower of the Loan Contract between Enterprises (Fa Fu [1996] No. 15)(《最高人民法院「關於企業借貸合同借款方逾期不歸還借款應如何處理的批覆」》(法覆[1996]15號)) (the "Supreme Court Reply"), (i) where unauthorised loans or receivables in disguised form take place among non-financial enterprises, the PBOC shall restrain such illegality and impose upon the lending party a fine ranging from 100% to 500% of the illegal income; and (ii) even if the people's court has ruled that loan contract between enterprises is invalid, the principal of such loans should be protected by law. Acting as lender, our total received interest income resulting from the Advances was RMB36.9 million, accordingly the maximum fine for such non-compliance incident that could be imposed on us is RMB184.5 million.	The Advances to YMCi, Yunnan Province Water, OriginWater Technology, Beijing OriginWater, Jinghong Urban Investment and Zhongyuan Industry Group were fully repaid in July 2013, November 2014, June 2012, February 2013, November 2014 and December 2013, respectively. We have obtained written confirmations from the Borrowers confirming that the Advances were genuine, reflected the true intentions of the parties and that there were no disputes, controversies, proceedings or potential proceedings with respect to these loans. As advised by our PRC legal adviser, based on certain publicly available information on the PBOC's official website, the Kunming Branch of the PBOC is the provincial level government authority which oversees and regulates intercompany loans within the territory of Yunnan. On 25 September 2014, our PRC legal adviser had an interview with the Chief of the General Administration Department (辦公廳主任) of the Kunming Branch of the PBOC, during which responsible official verbally confirmed that we were not and will not be subject to penalties for the Advances.	Our PRC legal adviser is of the view that, based on the fact that the Advances had been fully repaid as at the Latest Practicable Date and the confirmation provided by the responsible official of the competent government authority, the risk of us being penalised for the interest income derived from the Advances to the Borrowers which breached the Lending General Provisions is remote. Our Directors are of the view that, based on the advice of our PRC legal adviser, the fact that all amounts due in connection with the Advances comprising principal and interest had been fully repaid and the indemnity undertaking provided by Yunnan Province Water and Beijing OriginWater, such historical non-compliance incident will not materially and adversely affect our business operations or financial condition and as a result, no provision has been made in our consolidated financial statements. After (i) deducting the outstanding balances of all borrowings and the corresponding interest income for the year derived from all Advances that were in breach of the Lending General Provisions, and (ii) adding back the outstanding balances of all Advances, our liquidity position as at 31 December 2012 and 2013 would have been improved and there would have no significant impact to our liquidity position as at 31 December 2014. Based on the foregoing, our Directors are of the view that our liquidity position during the Track Record Period was not materially affected by the Advances (together with the corresponding interest income) or the borrowings which were in breach of the General Lending Provisions.

No.	Responsible Party	Historical Non-compliance	Reasons for the Non-compliance	Legal Consequences and Potential Maximum and Other Financial Liabilities	Rectification Actions Taken and Status as at the Latest Practicable Date	Potential Operational and Financial Impact
3.	Our Company, Jinghong Water and various counterparties	Acting as a borrower: Our Company and Jinghong Water borrowed from (i) Yunnan Province Water (a member of the YMCJ Group), (ii) Jinghong Urban Investment and Jinghong Municipal Manting Garden Co., Ltd. (景洪市曼聽公園有限公司) ("Manting Garden") (both of which are our connected persons other than the YMCJ Group and Beijing OriginWater), and (iii) Dali Asset Company and Nujiang State-owned Asset Operation Co., Ltd. (怒江州國有資產經營有限公司) ("Nujiang Asset Company") (both of which are Independent Third Parties). All of the foregoing companies are collectively referred to as the "Lenders". These borrowings were non-trade in nature, unsecured, with a pre-agreed interest rate ranging from 6.1% to 7.3%. As at 31 December 2012, 2013 and 2014, the outstanding balances of our borrowings from the Lenders amounted to approximately RMB251.1 million, RMB43.3 million and RMB8.6 million, respectively. In addition, for the years ended 31 December 2012, 2013 and 2014, the interest expense from us to the Lenders arising out of such borrowings amounted to RMB12.6 million, RMB7.1 million and RMB3.9 million, respectively. During the Track Record Period, our maximum outstanding balance of the borrowings from the YMCJ Group, our connected persons other than the YMCJ Group and Beijing OriginWater and the Independent Third Parties were RMB252.5 million, RMB71.3 million and RMB43.8 million, respectively.	Except for the borrowings from Dali Asset Company and Nujiang Asset Company to us (collectively referred to as the "Pre-Acquisition Borrowings"), the borrowings were made from the spare proceeds of the Lenders for the purpose of increasing our general working capital. The Pre-Acquisition Borrowings were made before we acquired Dali Water and Liuku Water in 2011 and 2014, respectively. In addition to the above, our borrowing from the YMCJ Group was made in accordance with the internal treasury policies of the YMCJ Group. While we did not encounter any difficulties in obtaining financing from any financial institutions during the Track Record Period, we borrowed from the Lenders primarily because it was more convenient and less time-consuming.	As advised by our PRC legal adviser, in view of the Lending General Provisions and the Supreme Court Reply, acting as borrower, we will not be subject to penalty.	Our borrowings from Yunnan Province Water, Jinghong Urban Investment, Manting Garden, Dali Asset Company and Nujiang Asset Company were fully repaid on July 2013, October 2014, July 2012, December 2014 and January 2015, respectively.	Our Directors are of the view that, based on the advice of our PRC legal adviser, acting as a borrower, our borrowings will not materially and adversely affect our business operations or financial condition and as a result, no provision has been made in our consolidated financial statements. After (i) deducting the outstanding balances of all borrowings and the corresponding interest income for the year derived from all Advances that were in breach of the Lending General Provisions, and (ii) adding back the outstanding balances of all Advances, our liquidity position as at 31 December 2012 and 2013 would have been improved and there would have been no significant impact to our liquidity position as at 31 December 2014. Based on the foregoing, our Directors are of the view that our liquidity position during the Track Record Period was not materially affected by the Advances (together with the corresponding interest income) or the borrowings which were in breach of the General Lending Provisions.

No.	Responsible Party	Historical Non-compliance	Reasons for the Non-compliance	Legal Consequences and Potential Maximum and Other Financial Liabilities	Rectification Actions Taken and Status as at the Latest Practicable Date	Potential Operational and Financial Impact
4.	Dali Water, Jinghong Water and Kelamayi Water	Prior to commencement of the relevant construction work for the Dali Water Supply Plant II Phase II, Jinghong Water Supply Supporting Pipeline Networks Reconstruction and Expansion Project and Wuwu Industrial Park Wastewater Treatment Project, we failed to obtain their construction land use planning permits.	In order to expedite the improvement of the water quality, tap water supply and raw water supply, we were required by the relevant local governments to commence project construction prior to obtaining construction land use planning permits for the relevant projects. Such local governments are higher-level authorities than the local government authorities which are responsible for issuing construction land use planning permits.	As advised by our PRC legal adviser, if a company is authorised to use the land for construction and fails to obtain a construction land use planning permit, the people's government at or above the county level may withdraw such authorisation and seize the land.	While there is no legal impediment for us to obtain the construction land use planning permits, our ability to do so is subject to the completion of the administrative procedures of the local government authorities. We have been communicating with Dali Municipal Planning Bureau, Jinghong Municipal Housing and Urban-Rural Development Bureau and Xinjiang Production and Construction Group No. 7 Division Wuwu Industrial Park Administration Committee and have requested these government authorities to process our applications for construction land use planning permits. We expect to obtain the relevant construction land use planning permits by the following time: - Dali Water Supply Plant II Phase II — by the end of June 2015; - Jinghong Water Supply Supporting Pipeline Networks Reconstruction and Expansion Project — by the third quarter of 2015; and - Wuwu Industrial Park Wastewater Treatment Project — by October 2015. We have obtained written confirmations from these government authorities confirming that, (i) there is no legal impediment for us to obtain construction land use planning permits; (ii) we are entitled to continue our project investment and construction in accordance with the relevant PRC laws and regulations; and (iii) we will not be subject to administrative penalty for failure to obtain construction land use planning permits. Our PRC legal adviser has advised that, based on the Law of the People's Republic of China on Urban and Rural Planning (《中華人民共和國城鄉規劃法》), (i) Dali Municipal Planning Bureau, Jinghong Municipal Housing and Urban-Rural Development Bureau and Xinjiang Production and Construction Group No. 7 Division Wuwu Industrial Park Administration Committee are the competent authorities and are of sufficient level to issue the government confirmations; and (ii) the risk of the government confirmations being challenged or revoked by higher-level government authorities is remote. We have obtained a written indemnity undertaking provided by Yunnan Province Water and Beijing OriginWater in respect of any losses or expenses which may be payable by us as a result of such non-compliance incident.	Our PRC legal adviser is of the view that, based on the government confirmations, (i) we would not be subject to penalty due to the lack of construction land use planning permits prior to the commencement of the relevant construction work; and (ii) there is no legal impediment for us to obtain the construction land use planning permits. Our Directors are of the view that, based on the aforesaid government confirmations, the advice of our PRC legal adviser and the indemnity undertaking provided by Yunnan Province Water and Beijing OriginWater, such non-compliance incident will not materially and adversely affect our business operations or financial condition and as a result, no provision has been made in our consolidated financial statements.

No.	Responsible Party	Historical Non-compliance	Reasons for the Non-compliance	Legal Consequences and Potential Maximum and Other Financial Liabilities	Rectification Actions Taken and Status as at the Latest Practicable Date	Potential Operational and Financial Impact
4.	See above.	See above.	See above.	See above.	We have adopted enhanced internal control measures and provided relevant training to employees to avoid recurrence of such non-compliance incidents. See "Business — Non-Compliance — Internal Control Measures — Measures relating to environmental impact assessments, construction land planning permits, construction planning permits and construction work commencement permits.	See above.
5.	Jinghong Water, Kalamayi Water, Qingzheng Water and Shandong Lingang Water	Prior to commencement of the relevant construction work for the Jinghong Water Supply Supporting Pipeline Networks Reconstruction and Expansion Project, Wuwu Industrial Park Wastewater Treatment Project, Jinan New Material Industrial Park Wastewater Treatment Plant and Jinan Lingang Economic Development Zone Wastewater Treatment Plant Phase I, we failed to obtain their construction planning permits.	In order to expedite the improvement of the water quality, tap water supply and raw water supply, we were required by the relevant local governments to commence project construction prior to obtaining construction planning permits for the relevant projects. Such local governments are higher-level authorities than the local government authorities which are responsible for issuing the construction planning permits.	As advised by our PRC legal adviser, for construction work carried out without a construction planning permit, the relevant PRC government authority at or above the county level may order the construction to cease, if the impact on the planning caused by such construction without the permit can be eliminated, the relevant PRC government authority may order the company to rectify such impact; an additional fine of not less than 5% but not more than 10% of the construction cost may be imposed. If such impact cannot be eliminated, the relevant government authority may order the construction entity to demolish such buildings or structures, or, for construction work that cannot be demolished, it may confiscate such buildings or structures or any income illegally earned from such property, and a further fine of not more than 10% of the construction cost may be imposed.	While there is no legal impediment for us to obtain the construction planning permits, our ability to do so is subject to the completion of the administrative procedures of the local government authorities. We have been communicating with Jinghong Municipal Housing and Urban-Rural Development Bureau, Xinjiang Production and Construction Group No. 7 Division Wuwu Industrial Park Administration Committee, Jinan New Material Industrial Park Administration Committee and Jinan Lingang Economic Development Zone Planning and Construction Bureau, and have requested these government authorities to process our applications for construction planning permits.	Our PRC legal adviser is of the view that, based on the government confirmations, (i) we would not be subject to penalty due to the lack of the construction planning permits prior to the relevant construction work; and (ii) there is no legal impediment for us to obtain the construction planning permits.
					We expect to obtain the relevant construction planning permits by the following times:	Our Directors are of the view that, based on the government confirmations, the advice of our PRC legal adviser and the indemnity undertaking provided by Yunnan Province Water and Beijing OriginWater, such non-compliance incident will not materially and adversely affect our business operations or financial condition and as a result, no provision has been made in our consolidated financial statements.
					- Jinghong Water Supply Supporting Pipeline Networks Reconstruction and Expansion Project — by the third quarter of 2015; - Wuwu Industrial Park Wastewater Treatment Project and Jinan New Material Industrial Park Wastewater Treatment Plant — by the end of October 2015; and - Jinan Lingang Economic Development Zone Wastewater Treatment Plant Phase I — by the end of June 2015.	
					We have obtained written confirmations from these government authorities confirming that, (i) there is no legal impediment for us to obtain construction planning permits; (ii) we are entitled to continue our project investment and construction in accordance with the relevant PRC laws and regulations; and (iii) we will not be subject to administrative penalty for failure to obtain construction planning permits.	
					The government may demolish or confiscate our buildings and structures and impose a fine of up to RMB31.2 million.	

No.	Responsible Party	Historical Non-compliance	Reasons for the Non-compliance	Legal Consequences and Potential Maximum and Other Financial Liabilities	Rectification Actions Taken and Status as at the Latest Practicable Date	Potential Operational and Financial Impact
5.	See above.	See above.	See above.	See above.	Our PRC legal adviser has advised that, based on the Law of the People's Republic of China on Urban and Rural Planning (《中華人民共和國城鄉規劃法》), (i) the abovementioned government authorities are the competent authorities and are of sufficient level to issue the government confirmations; and (ii) the risk of the government confirmations being challenged or revoked by higher-level government authorities is remote. We have obtained a written indemnity undertaking provided by Yunnan Province Water and Beijing OriginWater in respect of any losses or expenses which may be payable by us as a result of such non-compliance incident. We have adopted enhanced internal control measures and provided relevant training to employees to avoid recurrence of such non-compliance incidents. See "Business — Non-Compliance — Internal Control Measures — Measures relating to environmental impact assessments, construction land planning permits, construction planning permits and construction work commencement permits".	See above.

No.	Responsible Party	Historical Non-compliance	Reasons for the Non-compliance	Legal Consequences and Potential Maximum and Other Financial Liabilities	Rectification Actions Taken and Status as at the Latest Practicable Date	Potential Operational and Financial Impact
6.	Dali Water, Jinghong Water, Kalamay Water, Qingzheng Water and Shandong Lingang Water	Prior to commencement of the relevant construction work for the Dali Water Supply Plant I Expansion Project, Dali Wastewater Treatment Plant Phase II, Dali Water Supply Plant II Phase II, Jinghong Water Supply Supporting Pipeline Networks Reconstruction and Expansion Project, Wuwu Industrial Park Wastewater Treatment Project, Jinan New Material Industrial Park Wastewater Treatment Plant and Jinan Lingang Economic Development Zone Wastewater Treatment Plant Phase I, we failed to obtain their construction work commencement permits.	In order to expedite the improvement of water quality, tap water supply and raw water supply, we were required by the relevant local governments to commence project construction prior to obtaining construction work commencement permits for the relevant projects. Such local governments are higher-level authorities than the local government authorities which are responsible for issuing the construction work commencement permits.	As advised by our PRC legal adviser, if a company carries out construction work without a construction permit, it may be ordered to cease construction and to rectify within a certain time limit. A fine of not less than 1% but not more than 2% of the contractual project price may be imposed. The government may order us to cease construction and impose a fine of up to RMB14.9 million.	While there is no legal impediment for us to obtain the construction work commencement permits, our ability to do so is subject to the completion of the administrative procedures of the local government authorities. We have been communicating with Dali Municipal Housing and Urban-Rural Development Bureau, Jinghong Municipal Housing and Urban-Rural Development Bureau, Xinjiang Production and Construction Group No. 7 Division Wuwu Industrial Park Administration Committee, Jinan New Material Industrial Park Administration Committee and Jinan Lingang Economic Development Zone Planning and Construction Bureau and have requested these government authorities to process our applications for construction work commencement permits. We expect to obtain the relevant construction work commencement permits by the following time: - Dali Water Supply Plant I Expansion Project — by the end of May 2015; - Dali Wastewater Treatment Plant Phase II and Dali Water Supply Plant II Phase II — by the end of June 2015; - Jinghong Water Supply Supporting Pipeline Networks Reconstruction and Expansion Project — by the third quarter of 2015; - Wuwu Industrial Park Wastewater Treatment Project — by the end of August 2015; - Jinan New Material Industrial Park Wastewater Treatment Plant — by the end of August 2015; and - Jinan Lingang Economic Development Zone Wastewater Treatment Plant Phase I — by the end of June 2015.	Our PRC legal adviser is of the view that, based on the government confirmations, (i) we would not be subject to penalty due to the lack of the construction work commencement permits prior to the relevant construction work; (ii) there is no legal impediment for us to obtain the construction work commencement permits. Our Directors are of the view that, based on the government confirmations, the advice of our PRC legal adviser and the indemnity undertaking provided by Yunnan Province Water and Beijing OriginWater, such non-compliance incident will not materially and adversely affect our business operations or financial condition and as a result, no provision has been made in our consolidated financial statements.

We have obtained written confirmations from these government authorities confirming that, (i) there is no legal impediment for us to obtain construction work commencement permits; (ii) we are entitled to continue our project investment and construction in accordance with the relevant PRC laws and regulations; and (iii) we will not be subject to administrative penalties for failure to obtain construction work commencement permits.

No.	Responsible Party	Historical Non-compliance	Reasons for the Non-compliance	Legal Consequences and Potential Maximum and Other Financial Liabilities	Rectification Actions Taken and Status as at the Latest Practicable Date	Potential Operational and Financial Impact
6.	See above.	See above.	See above.	See above.	Our PRC legal adviser has advised that, based on the Construction Law of the People's Republic of China (《中華人民共和國建築法》), (i) the abovementioned government authorities are the competent authorities and are of sufficient level to issue the government confirmations; and (ii) the risk of the government confirmations being challenged or revoked by higher-level government authorities is remote. We have obtained a written indemnity undertaking provided by Yunnan Province Water and Beijing OriginWater in respect of any losses or expenses which may be payable by us as a result of such non-compliance incident. We have adopted enhanced internal control measures and provided relevant training to employees to avoid recurrence of such non-compliance incidents. See "Business — Non-Compliance — Internal Control Measures — Measures relating to environmental impact assessments, construction land planning permits, construction planning permits and construction work commencement permits".	See above.

No.	Responsible Party	Historical Non-compliance	Reasons for the Non-compliance	Legal Consequences and Potential Maximum and Other Financial Liabilities	Rectification Actions Taken and Status as at the Latest Practicable Date	Potential Operational and Financial Impact
7.	Emin Water	Prior to commencement of the construction work for the Emin (Bingdi, Liaoyang) Industrial Park Water Supply Project (Phase I), we failed to complete the environmental impact assessment.	In order to expedite the improvement of raw water supply, we were required by the relevant local government to commence project construction before the completion of the environmental impact assessments. Such local government is not responsible for approving environmental impact assessments, but is the government authority which granted the relevant concession right to us and is in charge of the Emin (Bingdi, Liaoyang) Industrial Park Water Supply Project (Phase I).	According to the Environmental Impact Assessment Law of the PRC (《中華人民共和國環境影響評價法》), any construction entity which fails to complete an environmental impact assessment prior to its commencement of construction work shall be ordered to suspend the construction work and complete the environmental impact assessment formalities within a prescribed period of time. If such construction entity fails to complete the environmental impact assessment within such period of time, it may be fined not less than RMB50,000 but not more than RMB200,000. As advised by our PRC legal adviser, pursuant to the written confirmation issued by Yunnan Jiangong Water Resource and Hydroelectric Construction Co., Ltd. (雲南建工水利水電建設有限公司) ("Yunnan Jiangong"), which is a party to and the main contractor under the construction contract with regard to the Emin (Bingdi, Liaoyang) Industrial Park Water Supply Works (Phase I) Project, Yunnan Jiangong acknowledges our suspension of the construction work of this project and waives any liquidated damages against us.	Subsequent to our commencement of construction, we requested the Xinjiang Department of Environmental Protection to process our application for approving the environmental impact assessment. Because we were of the view that we would not be able to complete the procedures for the environmental impact assessment within the required period of time based on our discussion with this government authority, we voluntarily suspended the construction work for this project in December 2014. We completed the environmental impact assessment on 20 April 2015, and we resumed construction of the Emin (Bingdi, Liaoyang) Industrial Park Water Supply Project (Phase I) on 27 April 2015. We have obtained a written indemnity undertaking provided by Yunnan Province Water and Beijing OriginWater with respect to any losses or expenses which may be payable by us as a result of such non-compliance incident. We have adopted enhanced internal control measures and provided relevant training to employees to avoid recurrence of such non-compliance incidents. See "Business — Non-Compliance — Internal Control Measures — Measures relating to environmental impact assessments, construction land planning permits, construction planning permits and construction work commencement permits".	Our PRC legal adviser is of the view that, because (i) we voluntarily suspended the construction work of this project and (ii) Yunnan Province Water and Beijing OriginWater have provided an indemnity undertaking to us, such non-compliance incident will not materially and adversely affect our business operations or financial condition. Our Directors are of the view that, based on the advice of our PRC legal adviser and the indemnity undertaking provided by Yunnan Province Water and Beijing OriginWater, any applicable fine for not completing the environmental impact assessment is minimal and such non-compliance incident will not materially and adversely affect our business operations or financial condition. As a result, no provision has been made in our consolidated financial statements.

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Internal Control Measures

Based on the recommendation provided by the internal control consultant, we implemented the following measures to prevent the future occurrence of non-compliance incidents such as those disclosed in the above table. The internal control consultant was of the opinion that, as at the Latest Practicable Date, our internal control measures below were adequate and effective, in all material respects, to prevent the re-occurrence of non-compliance incidents under review.

Measures relating to wastewater discharge permits and water intake permits

1. Only new projects approved by the Compliance Committee are eligible for submission to our Board for further discussion and consideration. The Compliance Committee will veto and reject any new projects with material non-compliance issues. This will allow the Compliance Committee to effectively prevent the commencement of operation of our concession projects at the request of the local governments prior to obtaining the relevant wastewater discharge permits or water intake permits. The Compliance Committee is responsible for compiling reports regarding such material non-compliance issues. Such reports are submitted by the Compliance Committee to our Board for their record.

The Compliance Committee is also responsible for overseeing the implementation of the following internal control measures relating to wastewater discharge permits and water intake permits and compiling reports or proposals regarding our compliance with such internal control measures. Such reports and proposals will be submitted by the Compliance Committee to our Board for their consideration and record. A regular review meeting is held every six months and a special meeting is held every quarter by the members of the Compliance Committee. An ad hoc meeting may be held as needed. After each of these meetings, the reports or proposals mentioned above are submitted to the Board immediately. Our Company's legal department assists the Compliance Committee in overseeing the implementation of the internal control measures and ensures compliance on a continuous basis.

2. We established management standards for our various production permits and licenses in July 2014. The operation & management centre is responsible for ensuring effective communication with the local government authorities and applying for and obtaining our various production permits and licenses in a timely manner. The operation & management centre is also responsible for safekeeping and maintaining such permits and licenses. As soon as the completion inspection and acceptance formalities are conducted for a project, the environmental protection inspection and acceptance formalities shall be conducted and the relevant wastewater discharge permits, qualifications for municipal water supply enterprises and water intake permits shall be obtained on a timely basis so as to ensure that the operation of each project company is in compliance with applicable laws and regulations.

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3. Our project management department is in charge of supervising our operation & management centre to ensure completion of all necessary formalities and obtaining all necessary wastewater discharge permits and water intake permits in a timely manner.
4. The general affairs office of the relevant subsidiary/the relevant project director is responsible for collecting all certificates, permits and approvals required for operation and construction as well as keeping relevant records in order to monitor the status regarding the application of each certificate, permit and approval and conduct follow-up actions.
5. The manager of our legal department is responsible for inspecting various permits and licenses required for our business operations according to the requirements of the Compliance Committee and urging those project companies without the necessary certificates and permits to apply for such outstanding certificates and permits. The manager of the legal department needs to ensure that such compliance inspection of permits and licenses will be conducted at least once a year with the results reported to our Board/ management.
6. Those projects without the required production permits and licenses/permits should be suspended from operation until such certificates and permits/confirmation have been obtained, in order to avoid any related legal and operational risks.
7. We have engaged Jia Yuan Law Offices as external PRC legal adviser since October 2013 to provide assistance on any legal and compliance matters relating to the water discharge permits and water intake permits.
8. The internal review department is responsible for conducting an annual inspection regarding compliance with the above measures. The inspection is part of the internal review work, or a joint inspection will be conducted with the legal department, as appropriate and the results will be reported to our Board.

The above measures are equally applicable to the management and control of any companies/projects to be developed by us or acquired by us during the due diligence process, in particular the water discharge permits and water intake permits, and the post-development and post-acquisition operation process, to ensure the operation of any companies/projects to be developed by us or acquired by us are in compliance with our internal control standards and the relevant PRC laws and regulations.

Measures relating to intercompany loans

1. Our Compliance Committee is responsible for overseeing the implementation of internal control measures relating to intercompany loans and compiling reports or proposals regarding our compliance with such internal control measures. Such reports and proposals will be submitted by the Compliance Committee to our Board for their consideration and record. A regular review meeting is held every six months

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and a special meeting is held every quarter by the members of the Compliance Committee. An ad hoc meeting may be held as needed. After each of these meetings, the reports or proposals mentioned above are submitted to the Board immediately. Our Company's legal department assists the Compliance Committee in overseeing the implementation of the internal control measures and ensures compliance on a continuous basis.

2. We established a system which expressly prohibits inter-company borrowing and lending in any form in contravention of the Lending General Provisions in July 2014 and we have ceased to provide loans to any entities.
3. We shall not make external payments without obtaining approvals from relevant department managers, finance manager, chief financial officer, general manager /Chairman in accordance with the corresponding authorisation.
4. The manager of the legal department is responsible for managing and reviewing the legal matters of our daily operations, and we have engaged Jia Yuan Law Offices as external PRC legal adviser since October 2013 to assist our Board/management in recognising and managing the legal risks to ensure compliance with the relevant PRC laws and regulations.
5. The internal review department is responsible for conducting an annual inspection regarding compliance with this system. The inspection is part of the internal review work and a joint inspection may be conducted with the legal department and the finance department. The results of such inspection will be reported to our Board.

The above measures are equally applicable to the management and control of any companies/projects to be developed by us or acquired by us during the due diligence process, in particular the inter-company loans, and the post-development and post-acquisition operation process, to ensure the operation of any companies/projects to be developed by us or acquired by us are in compliance with our control standards and the relevant PRC laws and regulations.

Measures relating to environmental impact assessments, construction land planning permits, construction planning permits and construction work commencement permits

1. Only new projects approved by the Compliance Committee are eligible for submission to our Board for further discussion and consideration. The Compliance Committee will veto and reject any new projects with material non-compliance issues. This will allow the Compliance Committee to effectively prevent the commencement of construction/operation of our concession projects at the request of local governments prior to completing the relevant environmental impact assessments or obtaining the relevant construction land planning permits,

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construction planning permits or construction work commencement permits. The Compliance Committee is responsible for compiling reports regarding such material non-compliance issues. Such reports are submitted by the Compliance Committee to our Board for their record.

The Compliance Committee is also responsible for overseeing the implementation of internal control measures relating to environmental impact assessments, construction land planning permits, construction planning permits and construction work commencement permits and compiling reports or proposals regarding our compliance with such internal control measures. Such reports and proposals will be submitted by the Compliance Committee to our Board for their consideration and record. A regular review meeting is held every six months and a special meeting is held every quarter by the members of the Compliance Committee. An ad hoc meeting may be held as needed. After each of these meetings, the reports or proposals mentioned above are submitted to the Board immediately. Our Company's legal department assists the Compliance Committee in overseeing the implementation of the internal control measures and ensures compliance on a continuous basis.

2. We updated our management standards relating to construction application formalities and environmental impact assessments in July 2014. The director of each project company or project manager is responsible for ensuring effective communication with the local government authorities and completing all necessary formalities and applying for and obtaining all necessary certificates and permits in a timely manner according to the requirements and schedules of the relevant projects.
3. Our project management department is in charge of supervising the director of each project company or project manager to ensure completion of all necessary formalities and obtaining all necessary licenses and permits required for our construction projects in a timely manner, as well as conducting regular inspection of the collection and monitoring the working progress for project documents, in order to ensure that each construction project has obtained all necessary certificates and permits.
4. We appointed the general manager of the technology & risk control centre and the manager of the legal department to manage and ensure compliance in respect of the negotiation, execution and operation of each project, and to oversee and rectify any non-compliance, so as to avoid operational risks in July 2014.
5. We have engaged Jia Yuan Law Offices as our external PRC legal adviser on an annual basis since October 2013 to provide timely legal advices on non-compliance matters occurred in our operations to our Board/management.
6. The Internal review department is responsible for conducting an annual inspection regarding compliance with the above measures. The inspection is part of the internal review work and a joint inspection may be conducted with the legal department. The results of such inspection will be reported to our Board.

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BDO performed an initial review on the above internal control measures (except for the establishment of the Compliance Committee) in August 2014 and follow-up reviews from September to October 2014. BDO performed an initial review on the establishment of the Compliance Committee in the end of January 2015. Based on these reviews, BDO is of the view that, as of the Latest Practicable Date, sufficient and adequate internal control measures were in place.

The above measures are also applicable to the management and control of any companies/projects to be developed by us or acquired by us during the due diligence process, in particular the environmental impact assessments, the construction land planning permits, construction planning permits and construction work commencement permits, and the post-development and post-acquisition operation process, to ensure the operation of any companies/projects to be developed by us or acquired by us are in compliance with our control standards and the relevant PRC laws and regulations.

Views of Our Directors, Company and Sole Sponsor

Having considered the above enhanced internal control measures as well as the expert opinion of BDO, our internal control consultant, our Directors (including our independent non-executive Directors) and the Sole Sponsor consider that our internal control measures, which will be implemented based on the recommendation provided by BDO, are adequate and effective to ensure compliance with the applicable legal and regulatory requirements.

Considering (i) the facts and circumstances surrounding the non-compliances; (ii) we have not been subject to any fines or penalties for the non-compliances during the Track Record Period and up to the Latest Practicable Date; (iii) the rectification measures we took; (iv) the various confirmations from the competent government authorities and the indemnity undertakings of Yunnan Province Water and Beijing OriginWater we have obtained; (v) the enhanced internal control measures we have implemented; (vi) a training session attended by our Directors in November 2014 in relation to their obligations and duties as directors of a listed company from a Hong Kong law perspective, in particular with respect to the Listing Rules and other securities laws and regulations; and (vii) a further training session attended by our Directors, members of senior management and other employees in March 2015 with respect to applicable PRC laws and regulations regarding corporate governance, mergers and acquisitions, major regulatory approval requirements for construction and operation of wastewater treatment and water supply projects and inter-company loans, our Directors are of the view, and the Sole Sponsor concurs with the view that, our Directors, despite such non-compliance incidents, are still suitable to serve as directors of a listed company and our Company is suitable for listing.

CONNECTED TRANSACTIONS

We have entered into agreements with parties which are our connected persons. The transactions under these agreements will continue following the Listing, thereby constitute our continuing connected transactions under Chapter 14A of the Listing Rules.

Continuing connected transactions which are fully exempted

1. *Patent licence agreement*

Our Company and Beijing OriginWater entered into a patent licence agreement (the “**Patent Licence Agreement**”) on 19 September 2014, pursuant to which Beijing OriginWater agrees to irrevocably grant us an exclusive licence to use two patents owned by Beijing OriginWater in the PRC, namely the patent on advanced municipal sewage treatment method (城市污水深度處理方法), which is related to our wastewater treatment, and patent on flux recovery method of dry hollow fibre membrane (乾態中空纖維膜的通量恢復方法), which is related to our membrane application, at nil consideration. The patents are not transferred to our Company because we expect to develop our own new technologies and apply such technologies which will replace the licensed patents in the future. For more information about these patents, see “Appendix V — Statutory and General Information — Further Information about Our Business — Intellectual property rights — (b) Patents”. The Patent Licence Agreement is for a term commencing from the date of the Patent Licence Agreement until the dates of expiry of such patents in December 2031 and July 2032, respectively. The Patent Licence Agreement is irrevocable and therefore Beijing OriginWater cannot unilaterally terminate the agreement.

Beijing OriginWater will hold approximately 24.92% of our issued share capital upon Listing, assuming the Over-allotment Option is not exercised. Beijing OriginWater is also regarded as a Controlling Shareholder because it held 33.23% of our issued share capital as at the Latest Practicable Date, even though immediately following the completion of the Global Offering, its shareholding in our Company will be 24.92%. Hence, Beijing OriginWater is our connected person under Chapter 14A of the Listing Rules.

The Directors (including the independent non-executive Directors) confirm that the terms of the Patent Licence Agreement are fair and reasonable, on normal commercial terms and in the interest of our Company and our Shareholders as a whole.

As the rights to use the patents are granted to us on a royalty-free basis (except for the fees relating to the filings with the relevant governmental authorities), the highest relevant percentage ratios (other than the profits ratio) in respect of the licence fees paid by our Group to Beijing OriginWater will be, on an annual basis, less than 0.1%, the transactions under the Patent Licence Agreement will constitute *de minimis* continuing connected transactions under Rule 14A.76 of the Listing Rules and will be exempted from the reporting, announcement, annual review and independent shareholders’ approval requirements pursuant to Rule 14A.73 of the Listing Rules.

CONNECTED TRANSACTIONS

2. *Share entrustment agreement*

Our Company, YMCI and Yunnan Province Water entered into a share entrustment agreement (the “**Share Entrustment Agreement**”) on 3 December 2014, pursuant to which each of YMCI and Yunnan Province Water agreed to entrust their respective 70% and 30% interest in Circular Economy to us for our management. The term under the Share Entrustment Agreement will be perpetual until terminated by the parties. The principal business of Circular Economy includes development and operation of solid waste and wastewater treatment facilities and development of equipment for its own use. See “Relationship with our Controlling Shareholders — Delineation of business” for details of the business of Circular Economy and its potential competition with our Group.

YMCI holds the entire interest of Yunnan Province Water, our Controlling Shareholder, holding approximately 31.57% of our issued share capital upon Listing, assuming the Over-allotment Option is not exercised. Hence each of Yunnan Province Water and YMCI, being an associate of Yunnan Province Water, is our connected person under Chapter 14A of the Listing Rules.

Contrasting with O&M project model under which we are entrusted to participate in daily operation and management of the project, our Company has the right to (i) decide on matters relating to management directions and investment plans of Circular Economy and (ii) advise on the disposal of Circular Economy under the Share Entrustment Agreement. All profits gained and losses incurred by Circular Economy will be enjoyed and borne by YMCI and Yunnan Province Water and they shall not interfere with the management by our Company pursuant to the Share Entrustment Agreement. The entrustment fee payable to us will be determined on a “cost-plus” basis, namely our Group will charge a fee that represents a 5% margin over the expenses that will be incurred by our Group in connection with the management of Circular Economy. The expenses mainly comprise the annual remuneration and related benefits payable to the senior personnel appointed by our Company to manage Circular Economy. The 5% margin was agreed by the parties based on arm’s length negotiation.

No similar share entrustment services to those under the Share Entrustment Agreement were provided by our Group to YMCI or Yunnan Province Water during the Track Record Period as such share entrustment arrangement has been put in place in preparation of the Listing and to address some of the concerns relating to potential competition of the Excluded Business of YMCI and Yunnan Province Water with the business of our Group. See “Relationship with our Controlling Shareholders — Delineation of business” for details of the potential competition with YMCI and Yunnan Province Water.

The Directors (including the independent non-executive Directors) are of the view that the terms of the Share Entrustment Agreement are fair and reasonable, on normal commercial terms or better and in the interest of our Company and our Shareholders as a whole.

CONNECTED TRANSACTIONS

As the estimate entrustment fee receivable under the Share Entrustment Agreement calculated based on the “cost-plus” basis as aforesaid, namely the annual remuneration and related benefits payable to the personnel appointed by our Company to manage Circular Economy plus 5% margin, on an annual basis is expected to be below HK\$3,000,000 and, the highest relevant percentage ratios (other than the profits ratio) in respect of the entrustment fees payable to us, on an annual basis, is expected to be less than 0.1%, the transactions under the Share Entrustment Agreement will constitute *de minimis* continuing connected transactions under Rule 14A.76 of the Listing Rules and will be exempted from the reporting, announcement, annual review and independent shareholders’ approval requirements pursuant to Rule 14A.73 of the Listing Rules.

Non-exempt continuing connected transactions

1. **Construction cooperation framework agreements**

Our Company and New Century Dianchi entered into a construction cooperation framework agreement dated 20 August 2014 as supplemented by two supplemental agreements dated 3 December 2014 and 25 March 2015 (the “**Construction Cooperation Framework Agreements**”), pursuant to which our Company agreed to design and construct certain water related projects in Kunming, the PRC, for the period from March 2015 to June 2017, subject to the automatic renewal for an additional term of three years unless terminated by either party with one month’s prior notice before expiration of the original term, provided that such renewal is in compliance with the Listing Rules. The total investment of these water projects is expected to be RMB300 million for the entire period from March 2015 to June 2017 with an additional term of three years if the term of the Construction Cooperation Framework Agreement is renewed. The construction of all the projects under the Construction Cooperation Framework Agreement is expected to be completed by June 2017. As at the Latest Practicable Date, our Company had entered into one ancillary agreement on 27 October 2014 (the “**Ancillary Agreement**”) to undertake two sub-projects (the “**Committed Sub-projects**”) under the Construction Cooperation Framework Agreements. According to the Ancillary Agreement, our Company committed to invest RMB80 million for the construction of the Committed Sub-projects.

The principal business of New Century Dianchi includes conference and exhibition, property management and operations, real estate development and management and development of tourism resources and management. New Century Dianchi is owned as to 55% by YMCI. YMCI holds the entire interest of Yunnan Province Water, our largest Controlling Shareholder, holding approximately 31.57% of our issued share capital upon Listing, assuming the Over-allotment Option is not exercised. Hence, New Century Dianchi, being an associate of Yunnan Province Water, is our connected person under Chapter 14A of the Listing Rules.

CONNECTED TRANSACTIONS

The principal terms under the Construction Cooperation Framework Agreements are as follows:

- a) our Company is responsible for designing and constructing certain water related projects in the Kunming Dianchi International Exhibition Centre, such water related projects include tap water supply system, wastewater treatment system, reclaimed wastewater treatment system, rainwater collection system, landscape water system, direct drinking water system and other water-related systems, according to the requirements of New Century Dianchi. Our Company is also responsible for obtaining the necessary financing for the construction work.
- b) New Century Dianchi is responsible for the work during the pre-construction phase, such as implementing the necessary demolition and relocation plan, sourcing land for the construction, obtaining necessary government approvals and co-ordinating access to water supply, electricity and roads as well as land levelling (三通一平). New Century Dianchi is also responsible for assisting our Company to obtain the necessary financing for the construction work.
- c) Our Company will enter into separate ancillary contracts with New Century Dianchi in respect of each sub-project. Such contracts will provide detailed terms for each water related sub-project, and the terms of which shall be consistent with the terms provided in the Construction Cooperation Framework Agreements.
- d) The repurchase period will commence when the sub-project is completed and has passed the preliminary acceptance inspection. The repurchase fees comprise the “repurchase base” and the investment return. New Century Dianchi will repurchase the water related sub-projects from our Company during the repurchase period on the following terms:
 - (i) the repurchase period shall be 36 months, divided into three tranches of 12 months each. The repurchase percentage for each tranche is 40%, 30% and 30%, respectively.
 - (ii) the repurchase fees for each tranche of the repurchase period shall be calculated as follows:
 - the repurchase fees for the first tranche = repurchase base⁽¹⁾ x 40% + repurchase base x 12%⁽²⁾;
 - the repurchase fees for the second tranche = repurchase base⁽¹⁾ x 30% + repurchase base x 60% x 12%⁽²⁾; and

CONNECTED TRANSACTIONS

- the repurchase fees for the third tranche = repurchase base⁽¹⁾ x 30% + repurchase base x 30% x 12%⁽²⁾.

(iii) a consultancy service fee equals to 3.5% of the construction and implementation costs (including the construction and other costs) for each sub-project is payable by New Century Dianchi according to the percentage of completion and will be paid in full after the sub-project has passed the preliminary acceptance inspection.

The above repurchase fees were agreed by the parties on arm's length negotiation.

- e) If New Century Dianchi fails to pay the repurchase fees according to the Construction Cooperation Framework Agreements, our Company has the right to dispose of such sub-projects and retain the proceeds as compensation.
- f) The ownership of the water facilities under each sub-project will be passed to New Century Dianchi after (i) such sub-project has passed the acceptance inspection; (ii) our Company has handed the completed project file and information to New Century Dianchi; and (iii) the repurchase fees in respect of such sub-project have been paid in full.

As the transactions under the Construction Cooperation Framework Agreements are new transactions, no historical figures are available. For the purpose of determining the proposed annual caps for the transactions under the Construction Cooperation Framework Agreements for each of the years ending 31 December 2015, 2016 and 2017, our Directors considered the following factors:

- the number and the scale of the water related projects our Company expects to construct within the Kunming Dianchi International Exhibition Centre: it is currently expected that that 12 water related projects with investment amounts ranging from approximately RMB12.0 million to RMB46.5 million will be constructed within the Kunming Dianchi International Exhibition Centre;

Notes:

(1) The "repurchase base" comprises the following:

- construction and installation costs (including construction and other costs) for completing the sub-projects, such amount to be confirmed by New Century Dianchi and agreed by both parties; and
- the interest accrued on the investment fund kept in the designated account during the construction period, such interest rate shall be based on the three-year period interest rate as announced by the People's Bank of China during the construction period.

(2) The 12% represents the investment return. If New Century Dianchi proposes an early repurchase, the investment return will be: repurchase base x 12% x (the actual number of days of use of the relevant water facilities / 360).

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- the planned construction progress of the 12 projects: it is expected that there would be two, 12 and 10 projects under construction with the total investment amount of RMB60.0 million, RMB65.0 million and RMB175.0 million and the average investment amount of RMB30.0 million, RMB5.4 million and RMB17.5 million in accordance with the project scale and expected progress for the years ending 31 December 2015, 2016 and 2017, respectively;
- the expected construction and installation costs of each of the water treatment facilities under the sub-project;
- the overall planning of the construction under the Construction Cooperation Framework Agreements and the construction cycle; and
- the formula for determining the repurchase fees and the consultancy services fees.

As a result, our Directors have estimated that the annual caps for the transactions under the Construction Cooperation Framework Agreements for each of the years ending 31 December 2015, 2016 and 2017 will be as follows:

	For the years ending 31 December		
	2015	2016	2017
	(RMB'000)	(RMB'000)	(RMB'000)
Construction revenue ⁽¹⁾⁽²⁾	60,000	65,000	175,000
Finance income ⁽¹⁾⁽²⁾	2,500	9,700	23,900
Consultancy service income ⁽¹⁾	2,100	2,300	6,100
Total	64,600	77,000	205,000

Note:

- (1) According to our accounting policy, we recognise revenue for our BT projects according to the percentage of completion method. See “Financial Information — Critical Accounting Policies, Estimates and Judgements — Percentage of completion of construction and service contracts”. Therefore, construction revenue, finance income and consultancy service income are expected be recognised during the construction of the sub-projects.
- (2) The construction revenue and finance income recognised in our financial statements represent the repurchase fees of such sub-projects.

CONNECTED TRANSACTIONS

Implications under the Listing Rules

The transactions under the Construction Cooperation Framework Agreements described in “Connected Transactions — Non-exempt continuing connected transactions” will constitute non-exempt continuing connected transactions of our Company under the Listing Rules upon the Listing. Pursuant to the Listing Rules, the relevant percentage ratios for the above continuing connected transactions are more than 5% on an annual basis. Accordingly, the continuing connected transactions contemplated under the Construction Cooperation Framework Agreements are subject to the reporting, annual review, announcement and independent shareholders’ approval requirements under the Listing Rules.

Since our Company has the relevant experience in constructing the water-related projects and it is expected that the Kunming Dianchi International Exhibition Centre will become a landmark in Kunming, our Directors consider that our participation and cooperation in the project will create a synergy between our Company and New Century Dianchi and will be beneficial to both of us. As such, our Directors (including the independent non-executive Directors) confirm that upon the Listing, the entering into of such continuing connected transactions under the Construction Cooperation Framework Agreements is in the interest of our Company. Our Directors (including the independent non-executive Directors) further confirm that such continuing connected transactions have been and will be entered into in the ordinary and usual course of our business and on normal commercial terms that are fair and reasonable and in the interest of our Company and our Shareholders as a whole; and that the proposed annual caps of such continuing connected transactions above are fair and reasonable and in the interest of our Company and our Shareholders as a whole.

Accordingly, we have applied to the Stock Exchange for, and the Stock Exchange has granted, a waiver from strict compliance with the announcement and independent shareholders’ approval requirements under the Listing Rules in respect of the transactions contemplated under the Construction Cooperation Framework Agreements.

Nonetheless, we are still subject to the reporting requirements pursuant to Rules 14A.49 and 14A.71 of the Listing Rules and shall disclose the details of the continuing connected transactions under the Construction Cooperation Framework Agreements in the annual reports for the three financial years ending 31 December 2017. Upon expiry of the waiver on 31 December 2017, we shall re-comply with the applicable requirements in Chapter 14A of the Listing Rules.

Confirmation from the Sole Sponsor

The Sole Sponsor confirms that our continuing connected transactions described in the sub-section “Non-exempt continuing connected transactions” have been and will be entered into in the ordinary and usual course of our business and on normal commercial terms that are fair and reasonable and in the interest of the Company and the Shareholders as a whole; and that the proposed annual caps of such continuing connected transactions above are fair and reasonable and in the interest of the Company and the Shareholders as a whole.

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

BOARD OF DIRECTORS

Our Board of Directors consists of 12 Directors, comprising three executive Directors, five non-executive Directors and four independent non-executive Directors. None of our Directors are related to one another. Our Directors are appointed for a term of three years, after which they may be re-elected. The table below sets out certain information in respect of the members of our Board:

Name	Age	Position/Title in our Company	Date of joining our Group	Date of appointment in the Company	Roles and responsibilities in our Group
Mr. Xu Lei (許雷)	48	Chairman, non-executive Director	21 June 2011 ⁽¹⁾	15 July 2014	Responsible for formulating our corporate and business strategies and making major corporate and operational decisions, presiding at the Shareholder meeting, convening and presiding at the board meeting, supervising and examining the execution of board resolutions
Mr. Wen Jianping (文劍平)	53	Non-executive Director	21 June 2011 ⁽²⁾	15 July 2014	Responsible for the formulation of corporate and business strategies and giving advice on audit and risk management
Mr. Jiao Jun (焦軍)	58	Non-executive Director	31 May 2014 ⁽³⁾	15 July 2014	Responsible for the formulation of corporate and business strategies and giving advice on audit and risk management
Mr. Yu Long (于龍)	43	Executive Director, general manager	21 June 2011 ⁽⁴⁾	15 July 2014	Responsible for the overall operation and management, strategic planning and business development
Mr. He Yuanping (何願平)	48	Non-executive Director	21 June 2011 ⁽⁵⁾	15 July 2014	Responsible for the formulation of corporate and business strategies and giving advice on audit and risk management
Mr. Feng Zhuangzhi (馮壯志)	39	Non-executive Director	26 June 2013	15 July 2014	Responsible for the formulation of corporate and business strategies and giving advice on audit and risk management
Mr. Liu Xujun (劉旭軍)	42	Executive Director, deputy general manager	21 June 2011 ⁽⁶⁾	15 July 2014	Responsible for the overall operation and management, strategic planning and business development
Mr. Huang Yunjian (黃雲建)	49	Executive Director, deputy general manager	20 December 2011 ⁽⁷⁾	15 July 2014	Responsible for the overall management and strategic planning and business development

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Name	Age	Position/Title in our Company	Date of joining our Group	Date of appointment in the Company	Roles and responsibilities in our Group
Mr. Kwok For Chi (郭科志)	44	Independent non-executive Director	20 April 2015	20 April 2015	Responsible for making significant decisions and giving advice on corporate governance, connected transactions, and various matters of Directors and senior management
Mr. Ma Shihao (馬世豪)	76	Independent non-executive Director	18 August 2014	18 August 2014	Responsible for making significant decisions and giving advice on corporate governance, connected transactions, and various matters of Directors and senior management
Mr. Ren Gangfeng (任鋼鋒)	37	Independent non-executive Director	18 August 2014	18 August 2014	Responsible for making significant decisions and giving advice on corporate governance, connected transactions, and various matters of Directors and senior management
Mr. Hu Song (胡松)	53	Independent non-executive Director	18 August 2014	18 August 2014	Responsible for making significant decisions and giving advice on corporate governance, connected transactions, and various matters of Directors and senior management

Notes:

Before the establishment of our Company in June 2011, our Group has been managed by our Directors through their positions in the Controlling Shareholders and/or the subsidiaries of our Company as follows:

- (1) Since April 2009 and up to the present, Mr. Xu Lei has been the chairman and director of Yunnan Province Water and since November 2005 and up to the present, he has been the chairman and director of YMCI.
- (2) Since June 2007 and up to the Latest Practicable Date, Mr. Wen has been the chairman and director of Beijing OriginWater.
- (3) Since June 2011 and up to the present, Mr. Jiao has been the deputy general manager of YMCI.
- (4) From May 2009 to October 2012, Mr. Yu had been the deputy general manager of Beijing OriginWater. Since January 2010 and up to the Latest Practicable Date, Mr. Yu has been the general manager of OriginWater Technology.
- (5) Since September 2005 and up to the present, Mr. He has been the director, deputy general manager and chief financial officer of Beijing OriginWater.
- (6) From January 2010 to April 2011, Mr. Liu had been the chief engineer of Yunnan Province Water and from April 2011 to June 2011, Mr. Liu had been the deputy general manager of Yunnan Province Water.
- (7) From January 2010 to June 2011, Mr. Huang had been the assistant to general manager and deputy general manager of Yunnan Province Water.

Mr. Huang has also been appointed as the director of the following subsidiaries of our Company: Mojiang Water since February 2010 and up to the Latest Practicable Date, Ninger Water between January 2010 and September 2014, Shuangjiang Water between January 2010 and September 2014, Cangyuan Water between June 2010 and September 2014, Gengma Water between June 2010 and September 2014, Menghai Water between September 2010 and September 2014, Lancang Water between December 2010 and August 2014, Jinggu Water between February 2010 and September 2014, Shuifu Water between May 2011 and September 2014, Weixin Water between May 2011 and September 2014, Jianshui Water since October 2011 and up to the Latest Practicable Date and Guoqing Environmental since September 2013 and up to the Latest Practicable Date.

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Executive and non-executive Directors

Mr. Xu Lei (許雷), aged 48, is the chairman and the non-executive Director of our Company. Mr. Xu joined our Group in June 2011 as chairman and Director of our Company. He has been primarily responsible for formulating our corporate and business strategies and making major corporate and operational decisions, presiding at the shareholder meeting, convening and presiding at the board meeting, supervising and examining the execution of board resolutions. Mr. Xu has more than 9 years of experience as senior management in water and construction works related companies. Mr. Xu has been appointed as the chairman of YMCI, our Controlling Shareholder, since November 2005 and up to the Latest Practicable Date. He has also been appointed as the chairman of Yunnan Metropolitan Real Estate Development Co., Ltd (雲南城投置業股份有限公司), a company listed on the Shanghai Stock Exchange (stock code: 600239), between December 2007 and March 2012 and subsequently appointed again from September 2014 and up to the Latest Practicable Date. Mr. Xu has been appointed as the chairman of Yunnan Province Water, our Controlling Shareholder, since April 2009 and up to the Latest Practicable Date. Since November 2012 and up to the Latest Practicable Date, Mr. Xu has been appointed as the chairman of New Century Dianchi. Since March 2012 and up to the Latest Practicable Date, Mr. Xu has been appointed as the chairman of Champion Property & Casualty Insurance Company Limited (誠泰財產保險股份有限公司), a limited liability company held as to 20% by YMCI. Mr. Xu obtained an executive master of business administration degree (“**EMBA**”) from Peking University in July 2007 and doctor of philosophy in study of industrial economics from Wuhan University of Technology in Wuhan in June 2012.

In November 2014, Mr. Xu received a disciplinary warning from the PRC Communist Party for YMCI’s failure to comply with the “Working Regulations for the Selection and Appointment of Party and Government Cadres” (黨政領導幹部選拔任用工作條例) (the “**Working Regulations**”), which was implemented in July 2002 and subsequently replaced by a revised version promulgated in January 2014, in the promotion of Ms. Lei Rui, who is independent from Mr. Xu, as its board secretary in January 2006 which was approved by the board of directors and the communist party committee of YMCI (the “**Incident**”). According to the Working Regulations, a cadre undertaking the position of such board secretary shall have at least five years’ work experience. However, a person who lacks such work experience can still be promoted if his/her performance is outstanding. Ms. Lei did not have five years’ work experience but she was promoted because of her outstanding performance. It was alleged that the promotion of Ms. Lei did not go through the democratic recommendation procedure nor the assessment procedure. According to the Working Regulations, the promotion of a cadre shall, among other things, (i) go through a voting procedure or be collectively recommended by the eligible individuals (including, but not limited to, members of the relevant communist party committee) after seeking their opinions through individual interviews, and (ii) go through an assessment procedure which usually includes organising an assessment committee and making an assessment plan, seeking the opinion of the relevant communist party committee, issuing an assessment notice, investigating the candidate’s background and performance through various channels (including, but not limited to, conducting performance reviews for the

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candidate from various individuals, reviewing his/her portfolio documents and interviewing the candidate), discussing with the main leaders of the relevant entities or the relevant communist party committee based on the above assessment results, drafting the appointment proposal and reporting to the relevant communist party committee.

The Directors are of the view that such non-compliance by YMCI in 2006 does not affect Mr. Xu's integrity mainly because:

- the non-compliance by YMCI was unintentional because YMCI was a newly-established company incorporated in April 2005 and the members of the party committee of YMCI (including Mr. Xu) misunderstood that they were not required to follow the Working Regulations because YMCI's administrative ranking was relatively low as it was not directly held by Yunnan SASAC when the Incident occurred in 2006. At that time, YMCI was a subsidiary of Yunnan Investment Group Co., Ltd. (雲南省投資控股集團有限公司) which was directly controlled by Yunnan SASAC;
- the promotion was a collective decision of YMCI, and Mr. Xu was not in charge of the communist party committee of YMCI. The promotion of Ms. Lei was not Mr. Xu's personal decision, but approved by the communist party committee of YMCI, in which Mr. Xu was a member. The disciplinary warning was imposed on Mr. Xu because he was held accountable as a major leader of YMCI at that time. The secretary of the communist party committee, who was in charge of, and senior than Mr. Xu in, the communist party committee of YMCI, also received a disciplinary warning. According to the disciplinary warning imposed on her, she was held directly accountable for the Incident;
- the Incident does not involve personal fraud, dishonesty, corruption or other illegal behaviour of Mr. Xu;
- the Working Regulations is not a law or regulation but only a rule of the Communist Party to implement its policy in the election and appointment of the cadres of the Communist Party and the government; and
- the Incident does not involve violation of any PRC laws or regulations, including the appointment procedures required by the Company Law of the PRC.

Having assessed the Incident carefully, the Directors and the Sole Sponsor consider that Mr. Xu's suitability to serve as a non-executive Director under Rules 3.08 and 3.09 of the Listing Rules is not materially affected by the disciplinary warning. In reaching that view, the following factors, amongst others, were considered:

- The promotion of Ms. Lei as the board secretary was a collective decision of the board of directors and the party committee of YMCI, which was made in good faith

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on the basis of (i) her great contribution in the establishment of YMCI, (ii) her outstanding performance in serving in the board of directors, (iii) her strong organisation and coordination capabilities, and (iv) her good education background;

- the disciplinary warning does not appear to have been the result of any improper conduct on the part of Mr. Xu, but was issued because Mr. Xu holds a leadership position at YMCI and is held accountable for its actions;
- our PRC legal adviser has advised that a disciplinary warning is the least severe disciplinary action available under the Regulations on Disciplinary Actions of the Communist Party of China (中國共產黨紀律處分條例) (the “**Disciplinary Regulations**”), and is not an administrative or criminal penalty;
- according to the Disciplinary Regulations, the only consequence of the disciplinary warning is that Mr. Xu will be ineligible for promotion inside the PRC Communist Party and could not be recommended by the PRC Communist Party to serve in a position higher than his current position outside the PRC Communist Party, in each case within one year after the warning;
- to prepare for our Listing, YMCI filed the appointment of Mr. Xu as the chairman of our Company with Yunnan SASAC in October 2014, and Yunnan SASAC acknowledged and accepted such appointment in December 2014;
- our PRC legal adviser has confirmed that the disciplinary warning will not affect Mr. Xu in discharging his roles as the chairman and a non-executive Director of our Company;
- the Incident does not involve any dishonesty or fraud, or other misconduct, by Mr. Xu, such that would affect his integrity and ability to discharge his responsibilities as a non-executive Director; and
- Mr. Xu confirmed that he was not subject to any other investigations or disputes, nor was he involved in any material non-compliances during his tenure as chairman or a member of the senior management in each of YMCI, Yunnan Metropolitan Real Estate Development Co., Ltd. and Yunnan Province Water.

Mr. Wen Jianping (文劍平), aged 53, is the non-executive Director of our Company. Mr. Wen joined our Group in June 2011 as Director of our Company. He has been participating in the formulation of corporate and business strategies and giving advice on audit and risk management. Mr. Wen has over 14 years of experience as senior management in environmental and water works related companies. Mr. Wen founded Beijing OriginWater Science and Technology Development Co., Ltd. (北京碧水源科技發展有限公司) (predecessor of Beijing OriginWater, our Controlling Shareholder) in July 2001 as general manager till June 2006 and became its chairman till June 2007, and continued to act as the chairman of Beijing OriginWater after its conversion in June 2007 and up to the Latest Practicable Date. Mr. Wen has been appointed as chairman of Beijing OriginWater Water Treatment Technology Co., Ltd

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(北京碧水源淨水科技有限公司), a subsidiary of Beijing OriginWater, since June 2009 and up to the Latest Practicable Date, as director of Nanjing Environmental Water Co., Ltd (南京城建環保水務股份有限公司) since December 2013 and up to the Latest Practicable Date, as chairman of Beijing OriginWater Solid Waste Treatment Technology Company Limited (北京碧水源固體廢物處理科技有限公司), a subsidiary of Beijing OriginWater, since August 2011 and up to the Latest Practicable Date, as chairman of Beijing OriginWater Membrane Technology Co., Ltd (北京碧水源膜科技有限公司), a subsidiary of Beijing OriginWater, since October 2012 and up to the Latest Practicable Date, and as director of Guangdong Haiyuan Environmental Technology Co., Ltd (廣東海源環保科技有限公司) since May 2013 and up to the Latest Practicable Date, as a director of Qingdao Water OriginWater Technology Development Company Limited (青島水務碧水源科技發展有限公司), a subsidiary of Beijing OriginWater, since February 2014 and up to the Latest Practicable Date. Mr. Wen obtained a master degree in water engineering science from 1998 to April 2001 from the University of New South Wales in Australia. As at 31 March 2015, Mr. Wen owned 24.83% interest in Beijing OriginWater.

Mr. Jiao Jun (焦軍), aged 58, is the non-executive Director of our Company. Mr. Jiao joined our Group in May 2014 as Director of our Company. He has been responsible for the formulation of corporate and business strategies and gives advice on audit and risk management. Mr. Jiao has over 32 years of experience in environmental and water works industry. Mr. Jiao was appointed as the lecturer of Southwest Forestry University (西南林業大學) between March 1982 and July 1985. Mr. Jiao studied at Yunnan Technology University (雲南工學院) as a postgraduate student between September 1985 and July 1987. Mr. Jiao was appointed as the lecturer of Yunnan Technology University (雲南工學院) between July 1987 and July 1988. Mr. Jiao held the following positions in various departments of the Department of Construction of Yunnan Province (雲南省建設廳) between 1988 and 2011: Mr. Jiao was appointed as the vice principal staff member between July 1988 and January 1993, as principal staff member between January 1993 and October 1996 and as deputy director between October 1996 and March 2000, as the director of the office of anti-earthquake commanding department between March 2000 and October 2000, as the department head of anti-earthquake department between October 2000 and June 2005 and as the department head of financial planning department since June 2005 and June 2011. Mr. Jiao has been acting as the deputy general manager of the YMCI since June 2011 and up to the Latest Practicable Date. Mr. Jiao has been appointed as the director of Circular Economy since December 2013 and up to the Latest Practicable Date, as the chairman of Circular Economy since July 2014 and up to the Latest Practicable Date. Mr. Jiao has been appointed as the executive director of Kunming Future City Development Co., Ltd (昆明未來城開發有限公司) since September 2014 and up to the Latest Practicable Date. Mr. Jiao obtained a bachelor degree in solid mechanics from Lanzhou University in Lanzhou in January 1982 and a master degree in earthquake engineering from Yunnan College of Engineering in Yunnan in July 1987. Mr. Jiao obtained the qualification of senior engineer in engineering management in February 1996.

Mr. Yu Long (于龍), aged 43, is the executive Director and general manager of our Company. Mr. Yu joined our Group in June 2011 as Director and general manager of our Company. He has been responsible for the overall operation and management, strategic planning and business development of our Company. Mr. Yu has over 13 years of experience

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in environmental and water works industry, market development, project management, investment capital management and risk control management. Mr. Yu was appointed as general manager of water works division and deputy general manager of Beijing Tsinghua Novel Environmental Protection Company Limited (北京清華永新環保有限公司) between July 2003 and August 2007. Mr. Yu was appointed as project management director of Kardan Water Group Limited (凱丹水務國際有限集團) between August 2007 and July 2008. Between July 2008 and April 2009, Mr. Yu was appointed as the deputy general manager of Ruoshi (Beijing) Investment Co., Ltd. (若石(北京)投資有限公司). Between May 2009 and October 2012, Mr. Yu was appointed as the sales director and the deputy general manager of Beijing OriginWater, our Controlling Shareholder. Since January 2010 and up to the Latest Practicable Date, Mr. Yu has been the general manager of OriginWater Technology. Mr. Yu has been appointed as a part-time professor of the Urban Construction and Management School of Yunnan University (雲南大學) since April 2012 and up to the Latest Practicable Date and a part-time professor of the Environmental Science and Engineering School of Kunming University and Technology (昆明理工大學) since January 2013 and up to the Latest Practicable Date. Mr. Yu has been appointed as the director of various subsidiaries of our Company, including Mengla Water since September 2011 and up to the Latest Practicable Date, Honghe Water since November 2012 and up to the Latest Practicable Date, Shawan Haorui Water since May 2013 and up to the Latest Practicable Date, Kelamayai Haorui Water since July 2013 and up to the Latest Practicable Date, Emin Water since April 2013 and up to the Latest Practicable Date, OriginWater Membrane Technology since December 2013 and up to the Latest Practicable Date, Yunnan Water Hong Kong since April 2014 and up to the Latest Practicable Date, and Yuxi Clean since August 2014 and up to the Latest Practicable Date. Mr. Yu has also been appointed as chairman of various subsidiaries of our Company, including Jinghong Water since December 2014 and up to the Latest Practicable Date, Beijing Clean since January 2014 and up to the Latest Practicable Date, Shandong Environmental since January 2014 and up to the Latest Practicable Date, Dali Water since April 2014 and up to the Latest Practicable Date, Wuxi Zhongfa Water since May 2014 and up to the Latest Practicable Date, and Yunnan Water Secondary Water Supply since June 2014 and up to the Latest Practicable Date. Mr. Yu obtained a MBA degree from Guanghua School of Management, Peking University in Beijing in July 2013. In April 2012, Mr. Yu won the “Yunnan Labour Medal” (雲南省五一勞動獎章) issued by Yunnan Provincial Union Federation. In January 2013, Mr. Yu was awarded the “Yunnan 2008-2012 town wastewater and living waste treatment facilities construction advancement - personal award” (雲南省2008-2012年城鎮污水生活垃圾處理設施建設先進個人) issued by People’s Government of Yunnan Province.

Mr. He Yuanping (何願平), aged 48, is the non-executive Director of our Company. Mr. He joined our Group in June 2011 as Director of our Company. He has been responsible for formulation of corporate and business strategies and gives advice on audit and risk management. Mr. He has more than nine years of management experience in large-scale enterprises and water works industry. Mr. He has been appointed as the director, deputy general manager and chief financial officer of Beijing OriginWater Science and Technology Development Co., Ltd. (北京碧水源科技發展有限公司) (predecessor of Beijing OriginWater, our Controlling Shareholder) since September 2005 and up to June 2007. Mr. He has been appointed as the director, deputy general manager, chief financial officer and board secretary of Beijing OriginWater since 2007 June and up to the Latest Practicable Date. Mr. He has been

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appointed as the chairman of Beijing Jiuan Construction and Investment Group Co., Ltd (北京久安建設投資集團有限公司), a subsidiary of Beijing OriginWater since May 2011 and up to the Latest Practicable Date. Mr. He was appointed as director of the following companies: Wuhan Wugang OriginWater Environmental Protection Technology Company Limited (武漢武鋼碧水源環保技術有限公司), a subsidiary of Beijing OriginWater, since January 2012 and up to the Latest Practicable Date. Beijing OriginWater Membrane Technology Co., Ltd (北京碧水源膜科技有限公司), a wholly-owned subsidiary of Beijing OriginWater since October 2012 and up to the Latest Practicable Date, Beijing OriginWater Boda Water Technology Co., Ltd (北京碧水源博大水務科技有限公司) since April 2012 and up to the Latest Practicable Date, Nanjing Environmental Water Co., Ltd (南京城建環保水務股份有限公司) since December 2013 and up to the Latest Practicable Date, Guangdong Haiyuan Environmental Technology Co., Ltd (廣東海源環保科技有限公司) since May 2013 and up to the Latest Practicable Date. Mr. He has also been appointed as (i) a director of Wuhan Sanzhen Industry Holding Co., Ltd (武漢三鎮實業控股股份有限公司), a company listed on the Shanghai Stock Exchange (stock code: 600168), since November 2013 and up to the Latest Practicable Date; (ii) an independent non-executive director of Yingde Gases Group Co., Ltd (盈德氣體集團有限公司), a company listed on the Stock Exchange (stock code: 2168), since December 2013 and up to the Latest Practicable Date; and (iii) an independent director of Telestone Technology Corporation, a company listed on NASDAQ (stock code: TSTC), since November 2011 and up to the Latest Practicable Date. Mr. He obtained a bachelor degree in engineering from Nanjing University of Science and Technology in Nanjing in July 1987. Mr. He also completed a master degree in mechanical engineering in Beijing University of Science and Technology in Beijing in February 1992 and obtained a master degree in finance from the Victoria University of Wellington in New Zealand in July 2000. As at 31 March 2015, Mr. He owned 5.05% interest in Beijing OriginWater.

Mr. Feng Zhuangzhi (馮壯志), aged 39, is the non-executive Director of our Company. Mr. Feng joined our Group in June 2013 as Director of our Company. He has been responsible for formulation of corporate and business strategies and gives advice on audit and risk management. Mr. Feng has 14 years of experience as senior management in large-scale enterprises and water works industry. Mr. Feng was appointed as the head of investment department of Shandong High Technology Investment Co., Ltd (山東省高新技術創業投資有限公司) and deputy general manager and director of its subsidiaries between October 2000 and April 2011. Mr. Feng was appointed as director of Finergy Guangda (Tianjin) Capital Partners (Limited Partnership) (融源廣達(天津)股權投資管理合夥企業(有限合夥)) between May 2011 and up to the Latest Practicable Date. Mr. Feng has been appointed as the general manager of Yunnan Finergy Tongda Investment Fund Management Co. Ltd. (雲南融源通達股權投資基金管理有限公司) since March 2012 and up to the Latest Practicable Date. Since December 2012 and up to the Latest Practicable Date, Mr. Feng has been appointed as a member of the investment management committee of Yunnan Energy-saving Environmental Protection Venture Capital Fund Partnership (Limited Partnership) (雲南融源節能環保創業投資基金合夥企業(有限合夥)). Mr. Feng obtained a bachelor degree in economics in Central University of Finance and Economics in Beijing in July 1997 and a master degree in business administration from a joint university program by Chinese University of Hong Kong in Hong Kong and Tsinghua University in Beijing in December 2005.

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Mr. Liu Xujun (劉旭軍), aged 42, is the executive Director and deputy general manager of our Company. Mr. Liu joined our Group in June 2011 as Director of our Company and was later also appointed as deputy general manager and chief engineer in December 2011. Mr. Liu has been responsible for the overall operation and management, strategic planning business development of our Company. Mr. Liu has more than 18 years of technical experience in water industry which include five years of experience as senior management of water enterprise. Mr. Liu was appointed by Kunming Municipal Sewerage Co., Ltd. (昆明市城市排水公司) between July 1995 and October 2005 with the following positions: as an engineering staff between July 1995 and January 1998, as a deputy director of World Bank project office between January 1998 and January 2002, and as a director of World Bank project office between January 2002 and October 2004. Mr. Liu was appointed as an interim head to assist the establishment of Yunnan Zhongshui Industry Co. Ltd (雲南中水工業有限公司) between November 2005 and February 2006. Mr. Liu joined Kunming Transportation Investment Co., Ltd. (昆明市交通投資有限責任公司) as an interim engineer to work for the infrastructure construction undertaken by Kunming New Airport Infrastructure Co., Ltd. (昆明新機場基礎配套設施有限公司) between February 2006 and December 2006 and was later appointed as deputy general manager of Kunming New Airport Infrastructure Construction Co., Ltd. (昆明新機場基礎配套設施建設有限公司) between December 2006 and December 2007. Mr. Liu worked as procurement specialist for the World Bank Resident Mission (世界銀行中國代表處) in the PRC from December 2007 to October 2009. Between January 2010 and June 2011, Mr. Liu was appointed as the chief engineer and deputy general manager of Yunnan Province Water, our Controlling Shareholder. Further, Mr. Liu has been appointed as a part-time professor of Kunming University of Science and Technology (昆明理工大學) since September 2012 and up to the Latest Practicable Date. Mr. Liu has been appointed as the director of Circular Economy since December 2013 and up to the Latest Practicable Date. Mr. Liu obtained a bachelor degree in water supply and drainage engineering from Tongji University in Shanghai in July 1995. Mr. Liu studied in Technical University of Berlin in Germany from October 2004 to October 2005 and obtained an advanced professional training certificate in “urban management of industrial and municipal waste in China” in May 2005 and an advanced professional training certificate in “urban environment management” in September 2005 from Technical University of Berlin and Federal Ministry for Economic Cooperation and Development of German Federal of Republic, respectively. Mr. Liu further obtained a master degree in environmental engineering from Kunming University of Science & Technology in Kunming in June 2009 and since September 2011 and up to the Latest Practicable Date, Mr. Liu has been pursuing doctor of philosophy in environment engineering from Tongji University in Shanghai. Mr. Liu was qualified as a senior engineer specialised in water supply and drainage in September 2006 issued by the Kunming Architecture Senior Engineer Certifying Committee (昆明市建築工程高級工程師評審委). He was also qualified as a professional manager in June 2007 issued by Yunnan Resources and Social Security Bureau of the PRC. Mr. Liu has become a member of the International Water Association (IWA國際水協) since January 2013 up to the Latest Practicable Date.

Mr. Huang Yunjian (黃雲建), aged 49, is the executive Director and deputy general manager of our Company. Mr. Huang joined our Group in December 2011 as deputy general manager of our Company and was later also appointed as Director in August 2012. He has been responsible for management, strategic planning and business development of our Group. Mr. Huang has more than 17 years of experience in operation management and as senior

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management in water works related companies. Mr. Huang was appointed as engineer personnel and plant manager of the 4th plant of Kunming Municipal Sewerage Co., Ltd (昆明市城市排水公司第四污水廠) between April 1998 and June 2005. Mr. Huang was appointed as the legal representative, executive director and general manager of Kunming Wastewater Treatment Co. Ltd. (昆明城市污水處理運營有限責任公司) between June 2005 and July 2008. Mr. Huang was appointed as assistant to the general manager and deputy general manager of Yunnan Province Water, our Controlling Shareholder, between January 2010 and June 2011. Mr. Huang has been appointed as the legal representative and director of the following subsidiaries of our Company: Mojiang Water since February 2010 and up to the Latest Practicable Date, Ninger Water between January 2010 and September 2014, Shuangjiang Water between January 2010 and September 2014, Cangyuan Water between June 2010 and September 2014, Gengma Water between June 2010 and September 2014, Menghai Water between September 2010 and September 2014, Lancang Water between December 2010 and August 2014, Jinggu Water between February 2010 and September 2014, Shuifu Water between May 2011 and September 2014, Weixin Water between May 2011 and September 2014, Jianshui Water since October 2011 and up to the Latest Practicable Date and Guoqing Environmental since September 2013 and up to the Latest Practicable Date. Mr. Huang is a part-time professor of Kunming University of Science Technology (昆明理工大學) since January 2013 and up to the Latest Practicable Date. Mr. Huang has been appointed as director of Fengyuan Water since March 2014 and up to the Latest Practicable Date. Mr. Huang obtained a degree in environment engineering from Kunming University of Science and Technology in Kunming in July 1988. Mr. Huang obtained a certificate for attending the modern economics management senior seminar in May 2005 and a certificate for attending the “Western China Environmental Infrastructure Technologies and Projects” course in December 2005. Mr. Huang further obtained a qualification as a Chinese career manager in June 2006 issued by Chinese Career Manager Coalition.

Independent non-executive Directors

Mr. Kwok For Chi (郭科志), aged 44, is the independent non-executive Director of our Company. Mr. Kwok has over 15 years of experience in financial management and auditing. He has been appointed as the chief financial officer and company secretary of KFM Kingdom Holdings Limited (金德控股有限公司), a company listed on the Stock Exchange (stock code: 3816), since February 2012. Prior to that, Mr. Kwok served as the chief financial officer and company secretary of Xing Yuan Power Holdings Company Limited (興源動力控股有限公司) from December 2010 to February 2012, the financial controller of Beijing Huaxia Real Estate Development Company Limited (北京華夏創業房地產開發有限公司) from October 2006 to December 2008, and the group controller of the Finance and Investment Centre of Hopson Development Holdings Limited (合生創展集團有限公司), a company listed on the Stock Exchange (stock code: 754), from April 2008 to November 2009. He also worked with KPMG from August 1994 to October 2006. Mr. Kwok obtained his bachelor's degree in business administration in accounting from The Hong Kong University of Science and Technology (香港科技大學) in November 1994, and is a member of the Hong Kong Institute of Certified Public Accountants.

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Mr. Ma Shihao (馬世豪), aged 76, is the independent non-executive Director of our Company. Mr. Ma joined our Group in August 2014 as independent non-executive Director of our Company and has been participating in making significant decisions and giving advice on corporate governance, connected transactions, various matters of Directors and senior management. Mr. Ma has more than 50 years of work experience in water industry. Mr. Ma worked in Beijing Environmental Protection Technology Research Centre (北京市環境保護科學研究院) between January 1963 and January 1999. Mr. Ma was appointed as a member of the Shandong Xiaoqinghe Wastewater Treatment Construction Technology Advisory Committee (山東小清河污水治理工程技術顧問委員會) in April 1989. Mr. Ma was appointed as independent director of Beijing OriginWater between September 2007 and April 2014. Mr. Ma is the author of the Beijing discharge standard of water pollutants for municipal wastewater treatment plants (DB11/890-2012) promulgated by Beijing People's Government in May 2012 and the second amendment of the Beijing integrated discharge standard of water pollutants (DB11/307-2013) promulgated by Beijing People's Government in December 2013. Mr. Ma obtained bachelor degree in water supply and drainage study of civil engineering in Tsinghua University in Beijing in January 1963. Mr. Ma obtained a certificate for individual training course in wastewater reuse and rational use of industrial water at Water Re-use Promotion Centre in Japan in April 1994. Mr. Ma was qualified as an engineer specialised in radioactive wastewater treatment in December 1979 issued by Ministry of Science and Technology (國家科學技術幹部局), as a senior engineer specialised in wastewater treatment in August 1987 and as a senior engineer (professor level) specialised in environmental engineering in November 1995 issued by Beijing Senior Professional Certifying Committee (北京市高級專業技術職務評審委員會). Mr. Ma was awarded for his study of integrated wastewater treatment of Songjiazhuang industrial area (宋家莊工業區污水集中治理可行性報告) in May 1988, for his study in standardizing the reasonable usage of water in Beijing industrial area in June 1992, for standardizing the national integrated discharge standard of water pollutants (DB11/307-2013) in October 1995, for his study on choice of crucial environmental protection technology in February 1999, completing the discharge standard of water pollutants in town in April 2000, completing the study on the discharge standard for wastewater of hospital authorities in May 2006 and for completing his study on the discharge standard for the automotive pollutants (GB26877-2011) in April 2012 by Ministry of Environmental Protection. Mr. Ma was also awarded for his study of integrated wastewater treatment of Songjiazhuang industrial area (宋家莊工業區污水集中治理可行性報告) in November 1989 by Beijing Municipal Management Committee. Mr. Ma was awarded for the construction of central water supply in July 1999 by the People's Liberation Army General Logistics Department (中國人民解放軍總後勤部). Mr. Ma was awarded for the study of Beijing hospital wastewater treatment in December 2000 by Beijing Environmental Protection Bureau. Mr. Ma was awarded for completing the amendment of the national integrated discharge standard of water pollutants in December 2000 by Beijing People's Government. Mr. Ma was awarded for his book, "The Book of Practical Water Treatment Technology" (《實用水處理技術叢書》) in September 2002 published by China Petroleum & Chemical Industry Federation.

Mr. Ren Gangfeng (任鋼鋒), aged 37, is the independent non-executive Director of our Company. Mr. Ren joined our Group in August 2014 as independent non-executive Director of our Company and has been responsible for making significant decisions and giving advice on corporate governance, connected transactions, various matters of Directors and senior management. Mr. Ren has more than 7 years of experience as senior management in water

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works industry. Between July 2007 and up to the Latest Practicable Date, Mr. Ren has been the engineer, project manager and the project director of China Urban Construction Design & Research Institute Company Limited (中國城市建設研究院有限公司). Since March 2010 and up to the Latest Practicable Date, Mr. Ren has been appointed as the legal representative and general manager of Yunnan Hong Feng Construction Work Company Limited (雲南宏鋒工程設計諮詢有限公司). Mr. Ren obtained a bachelor degree in environmental planning and management from Kunming University of Science & Technology in Kunming in July 2000.

Mr. Hu Song (胡松), aged 53, is the independent non-executive Director of our Company. Mr. Hu joined our Group in August 2014 as independent non-executive Director of our Company and has been participating in making significant decisions and giving advice on corporate governance, connected transactions, various matters of Directors and scale management. Mr. Hu has approximately 12 years of experience as senior management in large-scale enterprises. Mr. Hu was appointed as the director of Shenzhen Yungong Investment Co., Ltd. (深圳市允公投資有限公司) between March 2003 and February 2009. Mr. Hu was appointed as director of Zhaomao Capital Management Co., Ltd. (深圳市朝茂創業投資管理有限公司) between August 2008 and November 2014. Since July 2013 and up to the Latest Practicable Date, Mr. Hu has been the consultant of Mission Hills Group (觀瀾湖集團). In December 2002, Mr. Hu obtained a master degree in western economics from Huazhong University of Science and Technology in Wuhan.

SUITABILITY OF OUR DIRECTORS

During the Track Record Period and as at the Latest Practicable Date, we had various property issues (i.e. failure to obtain the relevant building ownership certificates for a portion of buildings with respect to our concession projects, see “Business — Properties”) and non-compliance incidents (see “Business — Non-compliance”). The Directors are of the view, and the Sole Sponsor concurs that such issues and incidents do not affect the suitability of our Directors to act as our Directors, and they have the character, experience, competence and integrity required under Rules 3.08 and 3.09 of the Listing Rules on the following bases:

Underlying Reasons

None of such issues or incidents impugn on the integrity or competence of our Directors. The reasons for each of such issues and incidents are broadly categorised as follows:

- Our property issues and non-compliance incidents (except for failure to comply with the Lending General Provisions) arose primarily because we were requested by the local governments to commence construction and operation of our wastewater treatment and water supply facilities prior to obtaining the relevant permits/certificates in order to expedite the improvement of the water quality and water supply. Such issues and incidents were caused by external reasons, and did not cause any concern on the integrity and competence of our Directors to act as our Directors.

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- Our failure to comply with the Lending General Provisions as a lender arose primarily because the relevant counterparties urgently required to raise funds for their general working capital needs and the relevant management personnel were not aware of the prohibition under the Lending General Provisions. Such non-compliance does not cast doubt on the suitability of our Directors to act as our Directors because (i) our Directors has not obtained any personal benefit directly or indirectly from such non-compliances; and (ii) such non-compliances do not involve any dishonesty or fraudulent act of our Directors.

Proactive Rectification

Our Directors are fully aware of the importance of complying with any applicable laws and regulations. When such property issues and non-compliance incidents were identified, our Directors proactively carried out a number of rectification measures, which included (i) communicating with the relevant government authorities and urging them to expedite the issue of the relevant certificates/permits; (ii) arranging interviews with the relevant government authorities to confirm that we will not be penalised by the relevant government authorities for the lack of wastewater discharge permits for Lanping Wastewater Treatment Plant and Longchuan Wastewater Treatment Plant and for our Advances to the Borrowers during the Track Record Period; (iii) obtaining various confirmation letters from the relevant competent government authorities or ceasing the non-compliant construction work voluntarily when such confirmation could not be obtained; (iv) obtaining indemnity undertaking from Yunnan Province Water and Beijing OriginWater in respect of any losses or expenses which may be incurred by us as a result of such property issues and non-compliance incidents; and (v) adopting enhanced internal control measures and providing relevant training to employees to avoid re-occurrence.

In addition, our Directors also understand the importance of maintaining a sufficient and effective internal control system for our Company. When BDO, our internal control consultant, identified any internal control deficiencies, our Directors promptly carried out the rectification measures as suggested by BDO. BDO is of the opinion that, as at the Latest Practicable Date, our internal control measures were adequate and effective.

Commitment to ongoing compliance

Our Directors are committed to the ongoing compliance with any applicable laws and regulations as well as operating our Company in a compliant manner in the future. Our Directors attended training session in relation to their obligations and duties as directors of a listed company from a Hong Kong law perspective in November 2014, in particular with respect to the Listing Rules and other securities laws and regulations. In addition, our Directors, members of senior management and other employees attended a further training session with respect to applicable PRC laws and regulations in March 2015 regarding corporate governance, mergers and acquisitions, major approval requirements for construction and operation of wastewater treatment and water supply projects and inter-company loans.

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Our Directors will attend additional training sessions in relation to corporate governance, applicable Hong Kong laws and regulations and applicable PRC laws and regulations to be conducted by our Hong Kong legal adviser, PRC legal adviser or professional training providers accredited by professional bodies after the Listing.

The Directors are aware of the recent corruption investigation against some senior officials of Yunnan Water Authority in November 2014. The Directors confirmed that such investigation had no material adverse impact on us because (i) none of our Directors or members of our senior management was involved in such investigation; and (ii) the primary regulator supervising us is Yunnan Construction Bureau instead of Yunnan Water Authority. See “Regulatory Environment — Concession in Municipal Public Utilities Projects — Government Supervision”. The main responsibilities of Yunnan Construction Bureau include but are not limited to, guiding the construction, safety operation and emergency management of urban public utilities, and supervising the development of villages and towns including the construction of wastewater treatment and waste disposal facilities. The main responsibilities of Yunnan Water Authority include but are not limited to, supervising the development and utilisation of water resources, determining and implementing local water development plans, drafting local laws and regulations for water development and protection, controlling floods and droughts disasters, guiding the management and protection of water conservancy facilities, and preventing soil erosion.

SUPERVISORY COMMITTEE

Our Supervisory Committee currently consists of six supervisors, including two representatives appointed by our Shareholders, two representatives elected by our employees and two independent Supervisors. Ms. Wang Shuqin is the chairman of the Supervisory Committee. The table below sets out certain information in respect of the members of our Supervisory Committee:

Position/Title	Date of joining our Group	Date of appointment	Age	Name	Roles and responsibilities in our Group
Employee representative Supervisor	21 June 2011	15 July 2014	37	Ms. Yang Chuanyun (楊川雲)	Responsible for overseeing the Directors, managers and other management personnel to ensure compliance with laws and regulations, the Articles of Association and the resolutions of Shareholders' meetings.
Chairman, Shareholder representative Supervisor	21 June 2011	15 July 2014	42	Ms. Wang Shuqin (王淑琴)	Responsible for overseeing the Directors, managers and other management personnel to ensure compliance with laws and regulations, the Articles of Association and the resolutions of Shareholders' meetings.

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Position/Title	Date of joining our Group	Date of appointment	Age	Name	Roles and responsibilities in our Group
Shareholder representative Supervisor	18 August 2014	18 August 2014	38	Ms. Li Bo (李波)	Responsible for overseeing the Directors, managers and other management personnel to ensure compliance with laws and regulations, the Articles of Association and the resolutions of Shareholders' meetings.
Independent Supervisor	7 January 2015	7 January 2015	44	Mr. Tan Hairui (譚海銳)	Responsible for overseeing the Directors, managers and other management personnel to ensure compliance with laws and regulations, the Articles of Association and the resolutions of Shareholders' meetings.
Independent Supervisor	7 January 2015	7 January 2015	36	Mr. Cao Jinwen (曹晉聞)	Responsible for overseeing the Directors, managers and other management personnel to ensure compliance with laws and regulations, the Articles of Association and the resolutions of Shareholders' meetings.
Employee representative Supervisor	7 January 2015	7 January 2015	31	Ms. Tang Shuang (唐爽)	Responsible for overseeing the Directors, managers and other management personnel to ensure compliance with laws and regulations, the Articles of Association and the resolutions of Shareholders' meetings.

Ms. Yang Chuanyun (楊川雲), aged 37, is an employee representative Supervisor of our Company. Ms. Yang is currently the manager of the bidding and procurement department of our Company. Ms. Yang joined our Group in June 2011 as Supervisor of our Company. She has been responsible for overseeing the Directors, managers and other management personnel to ensure compliance with laws and regulations, the Articles of Association and the resolutions of Shareholders' meetings. Ms. Yang has more than 10 years of experience of working in large-scale enterprises. Between September 2004 and July 2008, Ms. Yang was appointed as the legal consultant of Beijing Municipal Investment Company Limited (北京市政投資有限公司). Ms. Yang served in the legal department of Yunnan Province Water, our Controlling Shareholder, between December 2009 and June 2011. Ms. Yang obtained a bachelor degree in economic law in June 2000 and a master degree in economic law from China University of Political Science and Law in Beijing in June 2003.

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Ms. Wang Shuqin (王淑琴), aged 42, has been a Supervisor of our Company since June 2011 and up to the Latest Practicable Date. She has been responsible for overseeing the Directors, managers and other management personnel to ensure compliance with laws and regulations, the Articles of Association and the resolution of Shareholders' meetings. Ms. Wang has more than 7 years of experience in environmental and water works industry. Ms. Wang has been the deputy chief financial officer of Beijing OriginWater, our Controlling Shareholder, since May 2007 and up to the Latest Practicable Date, the supervisor of Beijing OriginWater Solid Waste Treatment Technology Company Limited (北京碧水源固體廢物處理科技有限公司), a subsidiary of Beijing OriginWater, since August 2011 and up to the Latest Practicable Date, and the supervisor of Wuhan Wugang OriginWater Environmental Protection Technology Company Limited (武漢武鋼碧水源環保技術有限公司), a subsidiary of Beijing OriginWater, since January 2012 and up to the Latest Practicable Date. Ms. Wang obtained a bachelor degree in economics and management from Huazhong Agricultural University in June 1995, and a master degree in economics from Renmin University of China in January 2002. Ms. Wang was qualified as an enterprise legal adviser certified by SASAC in October 2006 and a senior accountant in May 2010 certified by Beijing Municipal Bureau of Human Resources and Social Security.

Ms. Li Bo (李波), aged 38, is a Shareholder representative Supervisor of our Company. Ms. Li joined our Group in August 2014 as Supervisor of our Company and has been responsible for overseeing the Directors, managers and other management personnel to ensure compliance with laws and regulations, the Articles of Association and the resolutions of Shareholders' meetings. Ms. Li has more than 9 years of experience as senior management in water works industry. Ms. Li was appointed as the deputy manager of the investment and financing department of YMCI, our Controlling Shareholder, between April 2005 and May 2010 and was promoted as manager of the investment and financing department between May 2010 and May 2012. Since May 2012 and up to the Latest Practicable Date, Ms. Li has been acting as the board office director of YMCI. Ms. Li has also been appointed as the director of the following companies: Tengchong Mayugu Hot Spring Investment Co., Ltd (騰沖瑪御谷溫泉投資有限公司), a subsidiary of YMCI, since January 2014 and up to the Latest Practicable Date, Yunnan Rongzhi Capital Management Co., Ltd (雲南融智資本管理有限公司), a wholly-owned subsidiary of YMCI, since September 2014 and up to the Latest Practicable Date, and Shanghai Xincheng Commercial Co., Ltd (上海鑫城商業保理有限公司), a subsidiary of YMCI, since September 2014 and up to the Latest Practicable Date. Ms. Li obtained a MBA from Dalian University of Technology in Dalian in June 2008.

Mr. Tan Hairui (譚海銳), aged 44, is an independent Supervisor of our Company. Mr. Tan joined our Group in January 2015 as Supervisor of our Company. He has been responsible for overseeing the Directors, managers and other management personnel to ensure compliance with laws and regulations, the Articles of Association and the resolutions of Shareholders' meetings. Mr. Tan has more than 15 years of experience of working in large-scale enterprises. Mr. Tan was the deputy manager of the financial department of Yunda Science & Technology Industry Company Limited (雲大科技產業股份有限公司) from 2000 to December 2001. Mr. Tan joined Yunnan Hengxin Law Firm (雲南恒鑫律師事務所) as trainee solicitor and lawyer between January 2002 and August 2007. Mr. Tan was joined Yunnan Quzhi Law Firm (雲南曲直律師事務所) between September 2007 and March 2009. Since March 2009 and until now, Mr. Tan has

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been with Yunnan Geyuan Law Firm (雲南格元律師事務所) as a lawyer. Mr. Tan obtained a bachelor degree in economics from Yunnan University of Finance Economics (雲南財貿學院) in Yunnan in July 1993. In April 1999, Mr. Tan obtained the certificate as a registered accountant issued by Accountant Examination Committee of Ministry of Finance of the PRC. In August 2004, Mr. Tan obtained a Lawyer's License.

Mr. Cao Jinwen (曹晉聞), aged 36, is an independent Supervisor of our Company. Mr. Cao joined our Group in January 2015 as a Supervisor of our Company. He has been responsible for overseeing the Directors, managers and other management personnel to ensure compliance with laws and regulations, the Articles of Association and the resolutions of Shareholders' meetings. Mr. Cao has more than 13 years of experience of working in large-scale enterprises. Mr. Cao was appointed as an auditor of Zhong He Zheng Xin CPAs (中和正信(雲南)會計師事務所) between July 2001 and June 2003 and he was later promoted as the business manager and senior manager between July 2003 and August 2008. Since September 2008 and until now, Mr. Cao has been appointed as director and executive director of the investment bank department of Hongta Securities Company Limited (紅塔證券股份有限公司). Since July 2013, Mr. Cao has been the external professor of Yunnan University (雲南大學) for the master of accounting course. Mr. Cao obtained a degree of tourism management from Beijing Technology and Business University (北京工商大學) in Beijing in June 2001. Mr. Cao further obtained a master in business administration from Yunnan University (雲南大學) in Yunnan in January 2009. Mr. Cao obtained the Certificate of Membership of Certified Public Accountants in May 2013 issued by the Yunnan Provincial Institute of Certified Public Accountants.

Ms. Tang Shuang (唐爽), aged 31, is an employee representative Supervisor of our Company. Ms. Tang joined our Group in January 2015 as Supervisor of our Company. She has been responsible for overseeing the Directors, managers and other management personnel to ensure compliance with laws and regulations, the Articles of Association and the resolutions of Shareholders' meetings. Ms. Tang has more than seven years of experience working in large-scale enterprises. Ms. Tang was an employee of the Yunnan branch office of Ping An Life Insurance Limited (中國平安人壽保險股份有限公司) between July 2007 and June 2008. Ms. Tang served as the accountant for the Beijing branch office of Ping An Property & Casualty Insurance Company of China Limited (中國平安財產保險股份有限公司) between July 2008 and March 2010. Between March 2010 and February 2015, Ms. Tang served in the business department of OriginWater Technology. Since March 2015 and up to the Latest Practicable Date, Ms. Tang served in the bidding and procurement department of our Company. Ms. Tang obtained a bachelor degree in management from Yunnan University (雲南大學) in Yunnan in July 2007. Ms. Tang obtained the qualification as an accountant in May 2006 issued by the Ministry of Finance.

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SENIOR MANAGEMENT

The senior management team of our Group, in addition to the executive Directors listed above, is comprised of the following:

Name	Age	Date of joining our Group	Date of appointment of their current positions	Position/Title	Roles and Responsibilities in our Group
Mr. Hu Shake (胡沙克)	58	20 December 2011 ⁽¹⁾	15 July 2014	Deputy general manager	Responsible for investment work in Yunnan, liaise and coordinate Company's work in the Dali and Nujiang area.
Mr. Yang Fang (楊方)	41	25 March 2013 ⁽²⁾	1 November 2014	Deputy general manager	Responsible for disciplinary inspection, supervision of the overall operation, human resources, liaise and coordinate our Company's work in the Xinjiang and Wenshan area.
Mr. Wang Yong (王勇)	43	21 January 2013	20 November 2013	Chief financial officer	Responsible for our Company's financial management, liaise and coordinate our Company's work in the Beijing area.

Notes:

Before the establishment of our Company in June 2011, our Group has been managed by our senior management through their positions in our Controlling Shareholders and the subsidiaries of our Company as follows:

- (1) From May 2009 to June 2011, Mr. Hu had been the deputy general manager of Yunnan Province Water.

Mr. Hu has also been appointed as the director of the following subsidiaries of our Company: Nanjian Water between March 2010 and September 2014, Heqing Water between May 2010 and September 2014 and Yunlong Water since October 2010 and up to the Latest Practicable Date.

- (2) From May 2009 to May 2012, Mr. Yang had been the manager of human resources department of YMCI.

Mr. Hu Shake (胡沙克), aged 58, is the deputy general manager of our Company. Mr. Hu joined our Group in December 2011 as deputy general manager of our Company. He has been responsible for investment projects of our Group in Yunnan, liaising and coordinating work in the Dali and Nujiang area. Mr. Hu has over 19 years of experience as senior management in companies and water works related companies. Between March 1996 and December 1999, Mr. Hu was appointed as construction head of Yunnan Chuda Highway Construction Headquarter (雲南楚大高建公路建設指揮部). Between January 2000 and August 2005, Mr. Hu was appointed as chief monitor engineer and deputy commander of Yunnan Songming Highway Construction Headquarter (雲南嵩明待補高速公路建設指揮部). Between August 2005 and May 2006, Mr. Hu was appointed as deputy general manager of Yunnan Kunmo Highway Company Limited (雲南昆磨高速公路有限公司). Between June 2006 and April 2009, Mr. Hu was appointed as deputy head of quality control department of Yunnan Highway Development and Investment

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Company Limited (雲南公路開發投資有限責任公司). Mr. Hu was appointed as the deputy general manager of Yunnan Province Water, our Controlling Shareholder, between May 2009 and June 2011. Mr. Hu was appointed as director of the following subsidiaries of our Company: Nanjian Water between March 2010 and September 2014, Heqing Water between May 2010 and September 2014, Yunlong Water since October 2010 and up to the Latest Practicable Date, Yingjiang Water since May 2011 and up to the Latest Practicable Date, Lanping Water since July 2011 and up to the Latest Practicable Date, Lianghe Water since June 2011 and up to the Latest Practicable Date, Longcun Water since July 2011 and up to the Latest Practicable Date, and Lushui Water since July 2011 and up to the Latest Practicable Date. Mr. Hu graduated from Vocational College of Yunnan Highway Bureau in July 1984, majoring in highway engineering.

Mr. Yang Fang (楊方), aged 41, is the deputy general manager of our Company. Mr. Yang is also the party secretary of our Company. Mr. Yang joined our Group in March 2013 as the party secretary of our Company. He was later appointed as the deputy general manager of our Company in November 2014. He has been responsible for disciplinary inspection, supervision of the overall operation, human resources, liaising and coordinating work in the Xinjiang and Wenshan area. Mr. Yang has 8 years of experience as senior management in water works related companies. Mr. Yang was appointed to hold various positions in YMCI, between March 2006 and March 2008 as deputy management of personnel organisation department, between April 2008 and April 2009 as manager of personnel organisation department and between May 2009 and 2012 as manager of human resources department. Mr. Yang been appointed as the party secretary of Yunnan Province Water between May 2012 and September 2014. Mr. Yang obtained a bachelor degree in accounting and statistics from Yunnan University of Finance and Economics in July 1998 and further obtained an EMBA from Dalian University of Technology in June 2008. Mr. Yang was qualified as a first class enterprise human resources managing personnel in March 2009 issued by Ministry of Labour and Social Security.

Mr. Wang Yong (王勇), aged 43, is the chief financial officer of our Company. Mr. Wang joined our Group in January 2013 as a manager of financial department of our Company and was later appointed as the chief financial officer in November 2013. He has been responsible for our Company's financial management, liaising and coordinating work in Beijing area. Mr. Wang has more than 12 years of experience as senior management in large-scale enterprises and has substantial experience in accounting. Mr. Wang was appointed as the manager of financial department in Kunming Sino-Platinum Metals Catalyst Co., Ltd. (昆明貴研催化劑有限公司) between April 2002 and January 2013. Mr. Wang obtained a bachelor degree in economics in July 1993 from the Yunnan University of Finance and Economics in Yunnan and a master degree in business administration in January 2009 from Yunnan University. Mr. Wang was qualified as an accountant in the PRC in May 1996, and also qualified as a registered tax agent in the PRC in October 2000 and was promoted to a senior accountant in October 2004.

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COMPANY SECRETARY

Mr. Li Bo (李博), aged 36, is the company secretary of our Company. Mr. Li joined our Company in May 2013 and has been appointed as the board secretary of our Company since August 2013. He has been responsible for assisting the operation of our Company. Mr. Li has more than 7 years of experience in financial related senior position. Mr. Li was engaged by Audit Office of New South Wales as a contract auditor between August 2007 and October 2007, he was later appointed by Audit Office of New South Wales as an auditor between October 2007 to June 2008, and was subsequently appointed as a senior auditor between June 2008 and October 2010. Between March 2011 and June 2013, Mr. Li was appointed as the financial controller and the company secretary of Beijing Jingkelong Company Limited (北京市京客隆商業集團), a company listed on the Stock Exchange (stock code: 814). Mr. Li graduated from Capital University of Economics and Business in Beijing with a bachelor degree in economics in Beijing in July 2001 and he also obtained a master degree in accounting from Macquarie University in Australia in April 2006. Mr. Li has been a member of the Hong Kong Institute of Certified Public Accountants since September 2010 up to the Latest Practicable Date and a member of Certified Public Accountants of Australia since August 2006 and up to the Latest Practicable Date.

RESTRICTIONS ON TRANSFER OF SHARES OF BEIJING ORIGINWATER BY MR. WEN JIANPING AND MR. HE YUAN PING

Beijing OriginWater is our second largest Controlling Shareholder, which held 33.23% of our issued share capital as at the Latest Practicable Date. As at 31 March 2015, Beijing OriginWater was held as to 24.83% and 5.05% by Mr. Wen Jianping and Mr. He Yuanping, respectively, both our Directors. Mr. Wen and Mr. He indirectly hold interests in our shares through Beijing OriginWater. As directors of Beijing OriginWater, the transfer of shares of Beijing OriginWater by Mr. Wen and Mr. He is restricted by the relevant requirements on change of directors' shares under the Company Law, the listing guidelines of Shenzhen Stock Exchange (the "**Listing Guidelines**") and the Articles of Association of Beijing OriginWater. According to the Company Law and Listing Guidelines:

- during the respective terms of office as directors of Beijing OriginWater, Mr. Wen and Mr. He shall (i) not dispose of more than 25% of their respective shares of Beijing OriginWater each year; (ii) not purchase any shares of Beijing OriginWater within six months of their respective disposals of shares of Beijing OriginWater; (iii) not purchase or dispose of any shares of Beijing OriginWater during the price sensitive period as stipulated in the Listing Guidelines; (iv) obtain approval from the board of directors of OriginWater and declare to Shenzhen Stock Exchange for any purchase or disposal of shares of Beijing OriginWater (with an announcement made by Beijing OriginWater); and
- within six months after their respective resignations from their offices with Beijing OriginWater, Mr. Wen and Mr. He shall not dispose of any shares of Beijing OriginWater.

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

According to Article 28.2 of the Articles of Association of Beijing OriginWater (disclosed by Beijing OriginWater on 2 December 2014), Mr. Wen and Mr. He, as directors of Beijing OriginWater, shall (i) declare to Beijing OriginWater their holdings of shares of Beijing OriginWater and such changes; (ii) not dispose of more than 25% of their respective shares of Beijing OriginWater each year; (iii) not dispose of any shares of Beijing OriginWater one year after its listing on the Shenzhen Stock Exchange; and (iv) not dispose of any shares of Beijing OriginWater within six months after their respective resignations from Beijing OriginWater from their offices with Beijing OriginWater.

MANAGEMENT PRESENCE IN HONG KONG

Rules 8.12 and 19A.15 of the Listing Rules require that a listing applicant applying for a primary listing on the Stock Exchange must have a sufficient management presence in Hong Kong. This normally means that at least two of its executive directors must be ordinarily resident in Hong Kong. Since the principal business and operations of our Group are located in the PRC, members of our senior management are and will therefore be expected to continue to be based in the PRC. None of our executive Directors are Hong Kong permanent residents of or ordinarily based in Hong Kong. Our Company has applied to the Stock Exchange for a waiver from the strict compliance with the requirement under Rules 8.12 and 19A.15 of the Listing Rules. See “Waivers from Strict Compliance with the Listing Rules — Management Presence in Hong Kong”.

BOARD COMMITTEES

We have established the following four committees in our Board of Directors: an audit committee, a remuneration committee, a nomination committee and a compliance committee. The committees operate in accordance with the terms of reference established by our Board of Directors.

Audit Committee

Our Company has established an audit committee with written terms of reference in compliance with Rule 3.21 of the Listing Rules and the Corporate Governance Code as set out in Appendix 14 to the Listing Rules. The audit committee consists of four members, namely Mr. Kwok For Chi, Mr. Ma Shihao, Mr. Ren Gangfeng and Mr. Hu Song being our independent non-executive Directors and Mr. Kwok For Chi has been appointed as the chairman of the audit committee. Mr. Kwok For Chi is our independent non-executive Director with the appropriate professional qualifications. The primary duties of the audit committee are to review and supervise the financial reporting process and internal control system of our Group, oversee the audit process and perform other duties and responsibilities as assigned by our Board.

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Remuneration Committee

Our Company has established a remuneration committee with written terms of reference in compliance with Rule 3.25 of the Listing Rules and the Corporate Governance Code as set out in Appendix 14 to the Listing Rules. The remuneration committee consists of three members, namely Mr. Ren Gangfeng, Mr. Yu Long and Mr. Hu Song. Mr. Hu Song has been appointed as the chairman of the remuneration committee. The primary duties of the remuneration committee are to establish and review the policy and structure of the remuneration for the Directors and senior management and make recommendations on employee benefit arrangement.

Nomination Committee

Our Company has established a nomination committee with written terms of reference in compliance with the Corporate Governance Code as set out in Appendix 14 to the Listing Rules. The nomination committee consists of three members, namely Mr. Xu Lei, Mr. Ren Gangfeng and Mr. Hu Song. Mr. Xu Lei has been appointed as the chairman of the nomination committee. The primary duties of the nomination committee are to make recommendations to our Board on the appointment and removal of Directors of our Company.

Compliance Committee

Our Company has established a compliance committee to ensure the operation of any companies/projects to be developed by us or acquired by us are in compliance with our internal control standards and the relevant PRC laws and regulations. The compliance committee consists of five members, namely, Mr. Yu Long, Mr. Kwok For Chi, Mr. Hu Song, Mr. Ren Gangfeng and Ms. Yang Chuanyun. Mr. Yu Long has been appointed as the chairman of the compliance committee. The primary duties of the compliance committee are to conduct independent research and make decisions on compliance matters with respect to our business operations by authorisation from our Board.

COMPENSATION OF DIRECTORS AND SENIOR MANAGEMENT

Our Directors, Supervisors and senior management receive compensation in the form of salaries, allowances, discretionary bonuses, share awards, contributions to retirement benefits schemes and other benefits in kind subject to applicable laws, regulations and rules. The aggregate amount of compensation paid to the Directors and Supervisors for the years ended 31 December 2012, 2013 and 2014 were RMB1,212,000, RMB1,327,000 and RMB2,280,000, respectively. The aggregate amount of compensation and benefits in kind paid to the five highest paid individuals of our Group, including directors, for the years ended 31 December 2012, 2013 and 2014 were RMB1,604,000, RMB1,719,000 and RMB2,845,000, respectively.

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

The independent non-executive Directors receive fees from our Company as approved by the Shareholders in its general meeting. All Directors also receive reimbursements from our Company for expenses which are necessary and reasonably incurred for providing services to our Company or executing matters in relation to the operations of our Company and are paid out of the funds of our Company by way of fees for their services as directors. Save as disclosed above, the Directors are not entitled to receive any other special benefits from our Company. The compensation of our Directors was determined in the Shareholders' meeting which, following the Listing, will receive recommendation from the remuneration committee which will take into account applicable laws, regulations and rules.

No remuneration was paid to our Directors or the five highest paid individuals as an inducement to join, or upon joining, our Group. No compensation was paid to, or receivable by, our Directors or past Directors for the Track Record Period for the loss of office as director of any member of our Group or of any other office in connection with the management of the affairs of any member of our Group. None of our Directors waived any emoluments during the same period.

COMPLIANCE ADVISOR

We have appointed Somerley Capital Limited as our compliance advisor pursuant to Rule 3A.19 of the Listing Rules. Pursuant to Rule 3A.23 of the Listing Rules, our compliance advisor will advise us in the following circumstances:

- before the publication of any regulatory announcement, circular or financial report;
- where a transaction, which might be a notifiable or connected transaction, is contemplated, including share issues and share repurchases;
- where we propose to use the proceeds of the Global Offering in a manner different from that detailed in this prospectus or where our business activities, developments or results deviate from any estimate or other information in this prospectus; and
- where the Stock Exchange makes an inquiry of us regarding unusual movements in the price or trading volume of our H Shares.

The term of the appointment shall 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 and such appointment may be subject to extension by mutual agreement.

SHARE CAPITAL

This section presents certain information regarding our share capital prior to and immediately following the completion of the Global Offering.

BEFORE THE GLOBAL OFFERING

As at the Latest Practicable Date, our share capital was RMB862,564,457 comprising 862,564,457 Domestic Shares and the particulars of our shareholding structure were as follows:

Shareholder	Class	Number of Shares	Approximate percentage of issued share capital
			(%)
Yunnan Province Water	Domestic Shares	391,822,062	45.43
Beijing OriginWater	Domestic Shares	286,650,000	33.23
Finergy Development	Domestic Shares	137,880,000	15.98
Sichuan Rongchen	Domestic Shares	8,617,437	1.00
Hangzhou Qingyu	Domestic Shares	5,744,958	0.67
30 Management Shareholders	Domestic Shares	31,850,000	3.69
Total		862,564,457	100

UPON COMPLETION OF THE GLOBAL OFFERING

Immediately after completion of the Global Offering, assuming that the Over-allotment Option is not exercised, our total issued share capital will be 1,150,085,457 Shares, comprising 833,812,357 Domestic Shares and 316,273,100 H Shares. The particulars of our shareholding structure will be as follows:

Shareholder	Class	Number of Shares	Approximate percentage of issued share capital
			(%)
Yunnan Province Water	Domestic Shares	363,069,962	31.57
Beijing OriginWater	Domestic Shares	286,650,000	24.92 ⁽¹⁾
Finergy Development	Domestic Shares	137,880,000	11.99
Sichuan Rongchen	Domestic Shares	8,617,437	0.75
Hangzhou Qingyu	Domestic Shares	5,744,958	0.50
30 Management Shareholders	Domestic Shares	31,850,000	2.77
NSSF	H Shares	28,752,100	2.50
H Shares holders	H Shares	287,521,000	25.00
Total		1,150,085,457	100

Note:

- (1) To comply with Rule 10.07(1) of the Listing Rules, Beijing OriginWater will not dispose any of its Shares within 12 months from the Listing.

SHARE CAPITAL

Immediately after completion of the Global Offering, assuming that the Over-allotment Option is exercised in full, our total issued share capital will be 1,193,213,457 Shares, comprising 829,499,557 Domestic Shares and 363,713,900 H Shares. The particulars of our shareholding structure will be as follows:

Shareholder	Class	Number of Shares	Approximate percentage of issued share capital
			(%)
Yunnan Province Water	Domestic shares	358,757,162	30.07
Beijing OriginWater	Domestic shares	286,650,000	24.02 ⁽¹⁾
Finergy Development	Domestic shares	137,880,000	11.56
Sichuan Rongchen	Domestic shares	8,617,437	0.72
Hangzhou Qingyu	Domestic shares	5,744,958	0.48
30 Management Shareholders	Domestic shares	31,850,000	2.67
NSSF	H shares	33,064,900	2.77
H Shares holders	H shares	330,649,000	27.71
Total		1,193,213,457	100

Note:

- (1) To comply with Rule 10.07(1) of the Listing Rules, Beijing OriginWater will not dispose any of its Shares within 12 months from the Listing.

RANKING OF OUR SHARES

The H Shares in issue upon the completion of the Global Offering and the Domestic Shares are ordinary Shares in the share capital of our Company. However, apart from certain qualified domestic institutional investors in the PRC, H Shares generally cannot be subscribed for or traded by legal or natural persons of the PRC. All dividends in respect of the H Shares and the Domestic Shares are to be paid by us in Hong Kong dollars and RMB, respectively.

In addition, H Shares and Domestic Shares are regarded as different classes of Shares under our Articles of Association. The differences between the two classes of Shares, including provisions on class rights, the despatch of notices and financial reports to Shareholders, dispute resolution, registration of Shares on different registers of Shareholders, the method of Share transfer and the appointment of dividend receiving agents are set out in our Articles of Association and summarised in “Appendix IV — Summary of Articles of Association”. Further, any change or abrogation of the rights of a class of Shareholders should be approved by way of a special resolution of the general meeting of Shareholders and by a separate meeting of Shareholders of the affected class of Shares. However, the procedures for approval by Shareholders of the affected class of Shares shall not apply (i) where we issue, upon approval by a special resolution of our Shareholders in a general meeting, either separately or concurrently every 12 months, not more than 20% of each of the existing issued H Shares and Domestic Shares; (ii) where our plan to issue H Shares and Domestic Shares on establishment

SHARE CAPITAL

is implemented within fifteen months from the date of approval by the securities regulatory authority under the State Council; or (iii) upon approval by the securities regulatory authority under the State Council, the holders of our Domestic Shares transfer their Shares to overseas investors and list or trade their Shares in an overseas securities exchange. H Shares and Domestic Shares will however rank pari passu with each other in all other respects and, in particular, will rank equally (save for the currency of payment) for all dividends or distributions declared, paid or made after the date of this prospectus. H Shares and Domestic Shares are generally neither interchangeable nor fungible.

GENERAL MEETING AND CLASS MEETING

For details of circumstances under which our Shareholders' general meeting and class Shareholders' meeting are required, see "Appendix IV — Summary of the Articles of Association — Notice and Schedule of the General Meeting" and "Appendix IV — Summary of the Articles of Association — Voting Rights (Generally Relating to Rights on Poll or Rights to Demand a Poll)".

CONVERSION OF OUR DOMESTIC SHARES FOR LISTING AND TRADING ON THE HONG KONG OVERSEAS STOCK EXCHANGE

Conversion of our Domestic Shares

Upon completion of the Global Offering, we will have two classes of ordinary Shares, namely our Domestic Shares and H Shares. All of our Domestic Shares are unlisted shares which are not listed or traded on any stock exchange. According to the stipulations by the State Council's securities regulatory authority and our Articles of Association, our unlisted Shares may be converted into H Shares, and such converted H Shares may be listed and traded on an overseas stock exchange, provided that prior to the conversion and trading of such converted Shares, any requisite internal approval processes shall have been duly completed and the approval from the relevant PRC regulatory authorities, including the CSRC, shall have been obtained. In addition, such conversion and trading shall in all respects comply with the regulations prescribed by the securities regulatory authorities of the State Council and the regulations, requirements and procedures prescribed by the relevant overseas stock exchange. Our PRC legal adviser confirms that such conversion is consistent with the Articles of Association and in compliance with the PRC laws and regulations.

If any of our Domestic Shares are to be converted and to be traded as H Shares on the Stock Exchange, such transfer and conversion require the approval of the relevant PRC regulatory authorities, including the CSRC. The listing of such converted H Shares on the Stock Exchange will also require the approval of the Stock Exchange at the time of conversion instead of at the time of our initial listing. The approval of the Stock Exchange is ordinarily considered by the Stock Exchange as an administrative matter only. Based on the methodology and procedures for the transfer and conversion of our Domestic Shares into H

SHARE CAPITAL

Shares as described in this section, we can apply for the listing of all or any portion of our Domestic Shares on the Stock Exchange as H Shares in advance of any proposed conversion to ensure that the conversion process can be completed promptly upon notice to the Stock Exchange and delivery of Shares for entry on the H Share register.

No class Shareholder voting is required for the conversion, listing and trading of the converted Shares on an overseas stock exchange. Any application for listing of the converted Shares on the Stock Exchange after our initial listing is subject to prior notification by way of announcement to inform Shareholders and the public of any proposed transfer.

See “Risk Factors — Risks Relating to the Global Offering — Any possible conversion of our Domestic Shares into H Shares in the future could increase the number of our H Shares in the market and negatively impact the market price of our H Shares”, “Risk Factors — Risks Relating to the Global Offering — Future sales or major divestment of shares by our Controlling Shareholders could adversely affect the prevailing market price of our H Shares” and “Risk Factors — Risks Relating to the Global Offering — New Investors will incur immediate dilution and may experience further dilution”.

Mechanism and procedure for conversion

After all the requisite approvals have been obtained, the following procedures will need to be completed in order to give effect to the conversion: the relevant Domestic Shares will be withdrawn from the Domestic Share register and we will re-register such Shares on our H Share register maintained in Hong Kong and instruct the H Share Registrar to issue H Share certificates. Registration on our H Share register will be on the conditions that (a) our H Share Registrar lodges with the Stock Exchange a letter confirming the proper entry of the relevant H Shares on the H Share register and the due despatch of H Share certificates and (b) the admission of the H Shares to trade on the Stock Exchange will comply with the Listing Rules and the General Rules of CCASS and the CCASS Operational Procedures in force from time to time. Until the transferred Shares are re-registered on our H Share register, such Shares would not be listed as H Shares.

So far as our Directors are aware, none of our Shareholders proposes to convert any of their Domestic Shares into H Shares and sold for the benefit of the NSSF except for Yunnan Province Water in connection with the Global Offering in accordance with the relevant PRC regulations regarding the transfer of State-owned Shares.

Transfer of Shares issued prior to the Global Offering

Pursuant to the Company Law, the Shares issued prior to any public offering of our Shares should not be transferred within a period of one year from the date on which our Shares are publicly offered and listed on the relevant stock exchange. However, the Shares to be transferred by the State-owned Shareholders to the NSSF in accordance with the relevant PRC regulations regarding the transfer of State-owned Shares are not subject to such restrictions.

SHARE CAPITAL

REDUCTION OF STATE-OWNED SHARES

In accordance with the relevant PRC regulations regarding disposal of State-owned Shares, Yunnan Province Water, our largest Controlling Shareholder, is required to transfer to the NSSF such number of Domestic Shares, which in aggregate is equivalent to 10% of the number of the new Shares to be issued (being 287,521,000 H Shares before the exercise of the Over-allotment Option or 330,649,000 H Shares after the exercise in full of the Over-allotment Option), or pay the equivalent cash at the Offer Price under the Global Offering to NSSF, or a combination of both. At the time of the Listing on the Stock Exchange, such Domestic Shares will be converted into H Shares on a one-for-one basis. Neither our Company nor Yunnan Province Water will receive any proceeds from the transfer of Shares to the NSSF. The transfer of State-owned Shares by Yunnan Province Water to NSSF was approved by SASAC on 20 October 2014. The conversion of these Domestic Shares into H Shares was approved by the CSRC on 1 April 2015. Pursuant to a letter issued by the NSSF on 30 January 2015, the NSSF instructed us to (i) apply to the CSRC for converting the state-owned shares transferred to the NSSF to overseas listed foreign shares together with our application to the CSRC for the Listing; (ii) timely notify the NSSF of the timetable for the Listing after the hearing of the Listing Committee of the Stock Exchange; (iii) register the overseas listed foreign shares to be held by the NSSF in the name of the NSSF and under the investor account opened by the NSSF in HKSCC before the Listing; and (iv) submit the Listing information and other required documents to the NSSF within 30 business days after the Listing. We have been advised by Jia Yuan Law Offices, our PRC legal advisers that the conversion and sale described above have been approved by the relevant PRC authorities and are legal under PRC law.

SUBSTANTIAL SHAREHOLDERS

SUBSTANTIAL SHAREHOLDERS

As at the Latest Practicable Date, our share capital was RMB862,564,457 comprising 862,564,457 Domestic Shares and the following persons directly or indirectly control, or are entitled to exercise, or control the exercise of, 5% or more of our Domestic Shares:

Shareholder	Number of Domestic Shares held	Approximate percentage of shareholding in the total share capital of the Company
		(%)
Yunnan Province Water ⁽¹⁾	391,822,062	45.43
YMCI ⁽²⁾	391,822,062	45.43
Beijing OriginWater ⁽³⁾	286,650,000	33.23
Finergy Development	137,880,000	15.98

Notes:

- (1) Yunnan Province Water is wholly owned by YMCI.
- (2) Yunnan Province Water is wholly owned by YMCI. Under the SFO, YMCI is deemed to be interested in all the Shares in which Yunnan Province Water is interested.
- (3) Mr. Wen Jianping and Mr. He Yuanping, our non-executive Directors, owned 24.83% and 5.05% interest in Beijing OriginWater respectively, as at 31 March 2015.

SUBSTANTIAL SHAREHOLDERS

So far as our Directors are aware, immediately following the completion of the Global Offering (assuming that the Over-allotment Option is not exercised), the following person will have interests or short positions in our Shares or underlying Shares which would fall to be disclosed to our Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, directly or indirectly, be interested in 10% or more of the nominal value of any class of our share capital carrying voting power at general meetings:

Shareholder	Nature of interest	Class	Immediately prior to the Global Offering		Immediately after the completion of the Global Offering (assuming the Over-allotment Option is not exercised)	
			Number of Shares held	Approximate percentage of shareholding in the total Share capital of the Company	Number of Shares held	Approximate percentage of shareholding in the total Share capital of the Company
				(%)		(%)
Yunnan Province Water ⁽¹⁾	Beneficial owner, interest held jointly with another person	Domestic Shares	394,552,062	45.74	365,799,962	31.81
YMCI ⁽²⁾	Interest in a corporation	Domestic Shares	394,552,062	45.74	365,799,962	31.81
Beijing OriginWater	Beneficial owner	Domestic Shares	286,650,000	33.23	286,650,000	24.92
Liu Xujun ⁽¹⁾⁽³⁾	Beneficial owner, interest held jointly with another person	Domestic Shares	394,552,062	45.74	365,799,962	31.81
Huang Yunjian ⁽¹⁾⁽⁴⁾	Beneficial owner, interest held jointly with another person	Domestic Shares	394,552,062	45.74	365,799,962	31.81
Wang Yong ⁽¹⁾⁽⁵⁾	Beneficial owner, interest held jointly with another person	Domestic Shares	394,552,062	45.74	365,799,962	31.81
Finergy Development ⁽⁶⁾	Beneficial owner	Domestic Shares	137,880,000	15.98	137,880,000	11.99
Kunlun Trust Co., Ltd. ⁽⁶⁾	Interest in controlled corporation	Domestic Shares	137,880,000	15.98	137,880,000	11.99
CNPC Assets Management Co., Ltd. ⁽⁶⁾	Interest in controlled corporation	Domestic Shares	137,880,000	15.98	137,880,000	11.99
China National Petroleum Corporation ⁽⁶⁾	Interest in controlled corporation	Domestic Shares	137,880,000	15.98	137,880,000	11.99

Notes:

- (1) Yunnan Province Water is wholly owned by YMCI and the beneficial owner of 363,069,962 Domestic Shares immediately after the completion of the Global Offering (assuming the Over-allotment Option is not exercised). By virtue of the Acting in Concert Agreement, each of Yunnan Province Water and the Acting in Concert Parties is deemed to be interested in all the Domestic Shares held by them in aggregate by virtue of the SFO.

SUBSTANTIAL SHAREHOLDERS

- (2) Yunnan Province Water is wholly owned by YMCI. Under the SFO, YMCI is deemed to be interested in all the Shares in which Yunnan Province Water is interested.
- (3) Liu Xujun is the beneficial owner of 195,000 Domestic Shares. By virtue of the Acting in Concert Agreement, he is deemed to be interested in all the Domestic Shares held by Yunnan Province Water and the Acting in Concert Parties in aggregate by virtue of the SFO.
- (4) Huang Yunjian is the beneficial owner of 1,950,000 Domestic Shares. By virtue of the Acting in Concert Agreement, he is deemed to be interested in all the Domestic Shares held by Yunnan Province Water and the Acting in Concert Parties in aggregate by virtue of the SFO.
- (5) Wang Yong is the beneficial owner of 585,000 Domestic Shares. By virtue of the Acting in Concert Agreement, he is deemed to be interested in all the Domestic Shares held by Yunnan Province Water and the Acting in Concert Parties in aggregate by virtue of the SFO.
- (6) Finergy Development is controlled as to 84.86% by Kunlun Trust Co., Ltd., its general partner, Kunlun Trust Co., Ltd. is owned as to 82.18% by CNPC Assets Management Co., Ltd., which in turn is wholly-owned by China National Petroleum Corporation. Under the SFO, each of Kunlun Trust Co., Ltd., CNPC Assets Management Co., Ltd. and China National Petroleum Corporation is deemed to be interested in all the Domestic Shares held by Finergy Development.

For the persons who are directly and/or indirectly interested in 10% or more of the nominal value of any class of our share capital carrying the rights to vote in all circumstances at the general meetings of any other members of the Company, see “Appendix V — Statutory and General Information — Further Information about our Directors, Chief Executive, Supervisors and Substantial Shareholders — Substantial Shareholders”.

Save as disclosed herein, our Directors are not aware of any other person(s) who will, immediately after the Global Offering, have an interest or short position in the Shares or underlying Shares which are required to be disclosed to our Company and the Stock Exchange under the provisions of Division 2 and 3 of Part XV of the SFO, or directly or indirectly, be interested in 10% or more of the nominal value of any class of our share capital carrying the rights to vote in all circumstances at the general meetings of our Company.

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

BACKGROUND OF OUR CONTROLLING SHAREHOLDERS

Yunnan Province Water

Yunnan Province Water is a state-owned enterprise established on 22 April 2009 and wholly owned by YMCI which in turn was owned as to 96.21% by Yunnan SASAC. As at the Latest Practicable Date, it had a registered capital of RMB600 million and owned 45.43% of our issued share capital. Immediately following the completion of the Global Offering, assuming the Over-allotment Option is not exercised, Yunnan Province Water will hold approximately 31.57% of our issued share capital.

Yunnan Province Water is principally engaged in asset investment and management. Yunnan Province Water has confirmed that, save for its interest in Circular Economy, it does not have any interest in a business which competes with, or is likely to compete with, our business, whether directly or indirectly, which would otherwise require disclosure under Rule 8.10 of the Listing Rules. For the Excluded Business of Yunnan Province Water, see “Relationship with Our Controlling Shareholders — Delineation of Business”.

Acting in Concert Parties

On 24 July 2014, Yunnan Province Water and the Acting in Concert Parties, namely Liu Xujun, Huang Yunjian, our executive Directors and Wang Yong, our senior management, entered into the Acting in Concert Agreement, pursuant to which the Acting in Concert Parties agree to act in concert with Yunnan Province Water in exercising their voting rights in the Shareholders’ meeting of our Company until such agreement is terminated by the parties.

By virtue of the Acting in Concert Agreement, Yunnan Province Water and the Acting in Concert Parties together were entitled to control approximately 45.74% of our issued share capital as at the Latest Practicable Date and will be entitled to control approximately 31.81% of our issued share capital immediately following the completion of the Global Offering, assuming the Over-allotment Option is not exercised. As such, our Controlling Shareholders also include the Acting in Concert Parties.

Each of the Acting in Concert Parties confirms that he does not have any interest in a business which competes with, or is likely to compete with, our business, whether directly or indirectly, which would otherwise require disclosure under Rule 8.10 of the Listing Rules.

YMCI

YMCI is a state-owned enterprise established on 28 April 2005 and is the sole shareholder of Yunnan Province Water. As at the Latest Practicable Date, it had a registered capital of RMB4,142,214,400.

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

YMCI is principally engaged in asset investment and management. YMCI has confirmed that, save for its interest in Circular Economy and Fengyuan Water, it does not have any interest in a business which competes with, or is likely to compete with, our business, whether directly or indirectly, which would otherwise require disclosure under Rule 8.10 of the Listing Rules. For the Excluded Business of YMCI, see “Relationship with Our Controlling Shareholders — Delineation of Business”.

We have entered into a Non-competition Agreement with each of Yunnan Province Water and YMCI and the Acting in Concert Parties have entered into the Non-competition Undertaking. See “Relationship with Our Controlling Shareholders — Non-competition Agreements with YMCI, Yunnan Province Water and Beijing OriginWater and Non-competition Undertaking by the Acting in Concert Parties” for further details.

Beijing OriginWater

Beijing OriginWater, a company listed on the Shenzhen Stock Exchange (stock code: 300070), is established under the PRC law in July 2001 and converted as a joint stock company in June 2007, the shares of which are listed on the Shenzhen Stock Exchange and is owned as to 24.91% and 5.07% by Mr. Wen Jianping and Mr. He Yuanping, respectively, as at 31 December 2014. Mr. Wen Jianping and Mr. He Yuanping are our non-executive Directors. As at the Latest Practicable Date, Beijing OriginWater had a registered capital of approximately RMB1,076.9 million and owned 33.23% of our issued share capital. Immediately following the completion of the Global Offering, assuming the Over-allotment Option is not exercised, Beijing OriginWater will hold approximately 24.92% of our issued share capital. Beijing OriginWater is also regarded as a Controlling Shareholder because it held 33.23% of our issued share capital as at the Latest Practical Date, even though immediately following the completion of the Global Offering it will only hold 24.92% interest in our Company.

See “Relationship with Our Controlling Shareholders — Potential competition with Beijing OriginWater is very limited” for further details of the business of Beijing OriginWater.

Pursuant to the Non-competition Agreement entered into by Beijing OriginWater and our Company, Beijing OriginWater has undertaken to us that it and its associates (except for our Group) will not engage, directly or indirectly, in any business that competes or may potentially compete with us, presently or in the future, in (i) Yunnan, Guangxi, Sichuan; (ii) any cities (市), counties (縣) or districts (區) of the PRC where we conduct business including, but not limited to those locate in Xinjiang, Shandong, Jiangsu and Guizhou where we conduct business; and (iii) Southeast Asia (the “**Restricted Locations**”), other than the existing Overlapping Business (as defined below) carried on by Beijing OriginWater in any of the locations set out above as at the date of the Non-competition Agreement. See “Relationship with Our Controlling Shareholders — Non-competition Agreements with YMCI, Yunnan Province Water and Beijing OriginWater and Non-competition Undertaking by the Acting in Concert Parties” for further details.

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

DELINEATION OF BUSINESS

Principal business of our Group

Our Group is principally engaged in the investment, design, construction, operation and maintenance of municipal water supply and wastewater treatment facilities typically under a concession agreement with local municipal or county government, pursuant to which we operate these facilities for a fixed concession period and in return for a water supply or wastewater treatment fee, in the form of BOT, TOT, BOO or TOO. We are also engaged in other project models, including BT, EPC and O&M, to construct or operate municipal wastewater treatment, water supply or waste disposal facilities. In addition to undertaking these projects, we also engage in the equipment sales business with respect to the sale and provision of integration services of the equipment used in municipal wastewater treatment, tap water supply and waste disposal facilities. Our projects are located in Yunnan, Xinjiang, Shandong and Jiangsu and we conduct the equipment sales business in Yunnan and Guizhou. For further details of our principal business, see “Business”.

As at the Latest Practicable Date, we had 92 projects, including 36 BOT projects, seven TOT projects, 18 BOO projects, two TOO project, three BT projects, three EPC projects and 23 O&M projects, either under construction or in operation in Yunnan, Xinjiang, Shandong and Jiangsu, the PRC. The following table sets forth details of the projects:

	Number of projects												Total
	Wastewater treatment				Water supply				Municipal waste disposal				
	Yunnan	Xinjiang	Shandong	Jiangsu	Yunnan	Xinjiang	Shandong	Jiangsu	Yunnan	Xinjiang	Shandong	Jiangsu	
Concession projects													
BOT	28	1	2	4	—	1	—	—	—	—	—	—	36
TOT	4	—	—	1	1	—	1	—	—	—	—	—	7
BOO	5	—	—	—	13	—	—	—	—	—	—	—	18
TOO	2	—	—	—	—	—	—	—	—	—	—	—	2
Sub-total	39	1	2	5	14	1	1	—	—	—	—	—	63
BT	2	—	—	—	—	—	—	—	1	—	—	—	3
EPC	3	—	—	—	—	—	—	—	—	—	—	—	3
O&M	21	—	—	—	1	—	—	—	1	—	—	—	23
Total	65	1	2	5	15	1	1	—	2	—	—	—	92

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

Potential competition with YMCI and Yunnan Province Water is very limited

YMCI and Yunnan Province Water, through Circular Economy, a company owned as to 70% by YMCI and 30% by Yunnan Province Water, and Fengyuan Water, an associated company of YMCI, have interest in certain businesses (the “**Excluded Business**”) which may compete with our Group. Such Excluded Business comprises a solid waste treatment project, an industrial wastewater treatment project, a tap water treatment project and equipment development for self-use, the details of which are as follows:

1. *Circular Economy*

Circular Economy is a limited liability company established in the PRC. Circular Economy is owned as to 70% by YMCI and 30% by Yunnan Province Water. Its principal business includes development and operation of solid waste and industrial wastewater treatment facilities and equipment development for self-use and owning the entire interest in the Gantong Water Supply Plant.

Circular Economy holds a solid waste treatment project with a designed capacity of 200 tonnes per day and a small-scale industrial wastewater treatment project in Yunnan with a designed capacity of 3,500 tonnes per day and an utilised capacity of less than 2,500 tonnes per day. For the years ended 31 December 2012, 2013 and 2014, the total revenue of Circular Economy were approximately RMB50,000, RMB3.2 million and RMB8.7 million, respectively. Circular Economy was in a net loss position for the years ended 31 December 2012, 2013 and 2014 of approximately RMB21.3 million, RMB12.6 million and RMB13.2 million, respectively.

On 15 December 2014, our subsidiary Dali Water entered into an agreement with Circular Economy to dispose of the entire interest in the Gantong Water Supply Plant. The disposal was completed in March 2015. The Gantong Water Supply Plant is a tap water treatment plant operating under BOO model located in Gantong, Yunnan and was held by Dali Water. The designated tap water treatment capacity of the Gantong Water Supply Plant is 2,000 tonnes per day while its average utilised capacity is around 500 tonnes per day for the year ended 31 December 2014.

2. *Fengyuan Water*

Fengyuan Water is a limited liability company established on 20 May 2009 in the PRC and is owned as to 40% by YMCI and 60% by Kunming Water Group Co., Ltd (昆明自來水(集團)有限公司), an Independent Third Party. Its principal business includes the production and sales of raw water, the development and management of water resources, the eco-environment construction of water sources, and the consultation, design, construction, investment, operation and management of water supply and drainage engineering.

Fengyuan Water has a registered capital of RMB2,147.5 million, and it is mainly responsible for the investment, construction and operation of Zhangjiu River Water Diversion and Supply Engineering Project in Kunming, Yunnan, one of the national key projects.

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

For the years ended 31 December 2012, 2013 and 2014, the total revenue of Fengyuan Water were approximately RMB110.15 million, RMB98.18 million and RMB78.67 million, respectively. Fengyuan Water was in a net loss position for the years ended 31 December 2012, 2013 and 2014 of approximately RMB83.72 million, RMB54.80 million and RMB44.58 million, respectively.

Reasons for exclusion

We did not include the business of Circular Economy in our Group as (i) solid waste treatment is not a principal business of our Group at this stage; (ii) the operation results of the wastewater treatment project of Circular Economy have been unsatisfactory with net loss for the previous two financial years; and (iii) there is uncertainty in relation to the timing and/or ability to obtain the relevant land use right certificate of the land underlying the Gantong Water Supply Plant. In view of the above, our Directors are therefore of the view that it is not appropriate to include Circular Economy in our Group at this stage.

We did not include the business of Fengyuan Water in our Group primarily because YMCI does not control Fengyuan Water. YMCI only owns 40% of the equity interests of Fengyuan Water. In addition, as Fengyuan Water incurred a net loss in the previous three financial years, our Directors are of the view that it is not appropriate to include Fengyuan Water in our Group at this stage.

Based on the reasons above, our Directors confirmed that our Group has no intention to acquire the Excluded Business in the near future.

Extent of competition with the Excluded Business

Although all five operation projects of the Excluded Business are located in Yunnan, our Directors are of the view that the potential competition between YMCI and Yunnan Province Water on one hand and our Group on the other hand is very limited due to the following reasons.

In relation to the solid waste treatment project operated by Circular Economy, the location of the solid waste treatment project is in Jianshui county in Yunnan while the solid waste treatment project operated by our Group is located in Yuxi city. As solid waste treatment is a regional service and can only be provided within the same county, the potential competition amongst different solid waste treatment projects located in different counties is minimal. Moreover, the solid waste treatment project operated by Circular Economy is at a trial running stage and therefore relatively small in scale. Further, we adopt landfill and power-generating methods to dispose municipal solid waste, while Circular Economy adopts material recycling method to dispose solid waste by sorting and processing municipal solid waste for appropriate usage, such as organic compound fertilizer, wood products and organic fuel. Due to the difference in geographic location and technology adopted by Circular Economy, our Directors are of the view that the potential competition in relation to the solid waste treatment business from Circular Economy is minimal.

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

In relation to the industrial wastewater treatment project operated by Circular Economy, since industrial wastewater treatment is not part of our Group's business and the operation scale of Circular Economy's industrial wastewater treatment project is small, being less than 2,500 tonnes per day as compared with our Group's average treatment capacity of our wastewater treatment projects of approximately 18,000 tonnes per day, our Directors are of the view that the potential competition arising from this project is minimal.

In relation to the Gantong Water Supply Plant, its treatment capacity is 2,000 tonnes per day compared with our Group's average capacity of water supply of approximately 33,000 tonnes per day. The Gantong Water Supply Plant mainly supply tap water to several villages outside the urban area of Dali city. The tap water supply plants operated by Dali Water mainly supply tap water within the urban area of Dali city and its surrounding areas, which are separated from the areas covered by the Gantong Water Supply Plant. Since we do not have any tap water treatment projects in the same area where the Gantong Water Supply Plant is located, our Directors are of the view that the potential competition faced by our Group from this plant is minimal.

In relation to the raw water supply project operated by Fengyuan Water, our Directors are of the view that the potential competition between this project and our Group is minimal primarily because:

- (i) the raw water supply project is still at a trial running stage and located in Yunnan, while our only raw water project is located in Xinjiang. Due to the natural monopoly nature of the PRC water industry, water enterprises can only provide products and services within the coverage area of their pipeline network, and water projects located in different cities, counties or districts are not competing with each other; and
- (ii) YMCI only has a minority interest in Fengyuan Water and does not have management or operational control over it.

In connection with the Excluded Business, we have entered into a Non-competition Agreement with YMCI and Yunnan Province Water, pursuant to which we have a right to request YMCI and/or Yunnan Province Water (as the case may be) to sell and a right of first offer to acquire the entire interest in Circular Economy and/or the interest held by YMCI in Fengyuan Water, so that the Group will have the flexibility to include their respective businesses into our Group as and when we deem appropriate.

Further, YMCI and Yunnan Province Water have agreed to entrust the management of the equity interest of Circular Economy to our Group so that our Group will have a certain degree of management control over Circular Economy and be able to assess whether to exercise the right to acquire or the right of first offer. See "Relationship with Our Controlling Shareholders — Non-competition Agreements with YMCI, Yunnan Province Water and Beijing OriginWater and Non-competition Undertaking by the Acting in Concert Parties" for further details.

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

In light of the above, our Directors are of the view that the Excluded Business should not be included in our Group.

Potential competition with Beijing OriginWater is very limited

Beijing OriginWater is principally engaged in (i) design, sale, manufacturing and provision of system integration services of the equipment, particularly membrane, used in the municipal wastewater treatment and solid waste treatment facilities that are under EPC and equipment sales, (ii) development, design, construction, operation and maintenance of wastewater treatment facilities, ((i) and (ii) collectively, the “**Overlapping Business**”) and (iii) sale and manufacturing of water purifying machines for residential and office uses.

According to the annual reports of Beijing OriginWater, the audited primary business revenue of Beijing OriginWater for the years ended 31 December 2012, 2013 and 2014 were approximately RMB1,768.8 million, RMB3,130.6 million and RMB3,445.4 million, respectively, representing 99.8%, 99.9% and 99.9% of the total revenue of Beijing OriginWater for the same periods, respectively. The net profit for the same periods were RMB595.8 million, RMB939.9 million and RMB1,013.7 million, respectively.

As disclosed in the annual reports of Beijing OriginWater, the income generated from the Overlapping Business constituted 98.2%, 97.4% and 97.4% of the total primary business revenue of Beijing OriginWater, respectively, for the years ended 31 December 2012, 2013 and 2014. Over 60% of the income generated from the Overlapping Business during the Track Record Period were derived from membrane-related EPC projects and direct equipment sales.

Our Directors consider that the potential competition between our business and the business of Beijing OriginWater is very limited for the following reasons:

1. *Natural monopoly nature of the PRC water industry*

The geographical distribution of our projects and the projects of Beijing OriginWater as at the Latest Practicable Date are set out in the table below:

	Our Company	Beijing OriginWater
	<i>(number of projects)</i>	<i>(number of projects)</i>
EPC projects		
Yunnan	3	1
Xinjiang	—	1
Shandong	—	2
Guangdong	—	1
Gansu	—	1
Jiangsu	—	1
Hebei	—	2
Jilin	—	1
Heilongjiang	—	1
Sichuan	—	—

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

	our Company	Beijing OriginWater
	<i>(number of projects)</i>	<i>(number of projects)</i>
Chongqing	—	1
Beijing	—	13
Subtotal	3	25⁽¹⁾
BOT Projects		
Yunnan	28	—
Jiangsu	4	—
Xinjiang	2	1
Shandong	2	—
Beijing	—	3
Hubei	—	1
Inner Mongolia	—	1
Hebei	—	1
Subtotal	36	7⁽²⁾⁽³⁾
O&M Projects		
Yunnan	23	—
Beijing	—	2
Subtotal	23	2
BOO Projects		
Yunnan	18	—
TOT Projects		
Yunnan	5	—
Shandong	1	—
Jiangsu	1	—
Subtotal	7	—
TOO Projects		
Yunnan	2	—
BT Projects		
Yunnan	3	—
Jiangsu	—	1
Subtotal	3	1
Total	92	35

Notes:

- (1) Out of the 25 EPC projects of Beijing OriginWater, two are owned by its associated companies.
- (2) None of the seven BOT projects owned by Beijing OriginWater are in operation and all of the them are at the planning or construction stage.
- (3) Four BOT projects of Beijing OriginWater are owned by its associated companies.

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

As set out above, both our Company and Beijing OriginWater have projects located in Yunnan, Xinjiang, Shandong and Jiangsu. However, despite the overlapping provinces, due to the natural monopoly nature of the water industry as further described below, the potential competition between Beijing OriginWater and our Group is very limited.

According to EY Advisory, the construction and operation of municipal water supply and wastewater treatment plants are regional, which are considered as part of the basic infrastructure in the municipal and county regions. The wastewater treatment and water supply facilities, which need to operate through pipeline networks and with natural resources, are a natural monopoly and are not suitable for repeated construction within a designated area. Water cannot be transported in long distance and circulated around the market as other commodities. Water enterprises can only provide products and services within the coverage area of their pipeline network, forming a relatively independent regional market.

Furthermore, most of our municipal water supply and wastewater treatment plants in the PRC are subject to a long term exclusive concession arrangement with a typical term of 30 years. Under such arrangement, we have the exclusive right to operate the subject plant within a region. This effectively precludes any of our potential competitors (which may include Beijing OriginWater) from competing with our business within that region during the term of the concession arrangement. In addition, each concession arrangement is subject to stringent prior review and approval processes, requiring approval from various authorities including the National Development and Reform Commission in the PRC. Based on our understanding and previous experience, once a municipal water supply and/or wastewater treatment plant is approved, it is unlikely that a similar plant will be approved in the nearby area during the concession period of the plant. Therefore, even though a slight number of our Company's projects and those of Beijing OriginWater are located in the same provinces, those projects are not competing with each other as they are located in different cities, counties or districts.

Based on the reasons above, despite the fact that Beijing OriginWater and our Group operate certain projects in the same province, our Directors do not consider that such projects compete, directly or indirectly, with each other.

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

2. *Geographical locations*

According to the consolidated management accounts of our Group, all of the revenue of our Group was derived from Yunnan, Xinjiang, Shandong, Jiangsu and Guizhou during the Track Record Period. Set out below is the respective revenue contribution from our subsidiaries registered in each of Yunnan, Xinjiang, Shandong, Jiangsu and Beijing to the total revenue of our Group during the Track Record Period:

Revenue	For the years ended 31 December					
	2012		2013		2014	
	(RMB'000)	(%)	(RMB'000)	(%)	(RMB'000)	(%)
Yunnan	398,521	100	570,757	82.9	816,356	74.2
Xinjiang	—	—	117,977	17.1	134,827	12.2
Shandong	—	—	—	—	110,126	10.0
Jiangsu	—	—	—	—	20,972	1.9
Beijing ⁽¹⁾	—	—	—	—	18,480	1.7
Total	398,521	100	688,734	100	1,100,761	100

Note:

- (1) Our revenue in Beijing in 2014 was attributable to the equipment sales business for a municipal waste disposal project in Guizhou conducted by Beijing Clean. We acquire Beijing Clean in January 2014. During the Track Record Period, none of our revenue was derived in Beijing.

As illustrated above, our Group's geographical focus is mainly in Yunnan, with approximately 100%, 82.9% and 74.2% of the revenue of our Group being derived from subsidiaries registered in Yunnan for the years ended 31 December 2012, 2013 and 2014. Out of our 92 projects as at the Latest Practicable Date, 82 were located in Yunnan.

According to the annual reports of Beijing OriginWater, the respective revenue contribution from the projects in Beijing and other areas to Beijing OriginWater's total primary business revenue for the years ended 31 December 2012, 2013 and 2014 are as follows.

Location	For the years ended 31 December					
	2012		2013		2014	
	(RMB'000)	(%)	(RMB'000)	(%)	(RMB'000)	(%)
Beijing Area	954,277.5	54.0	1,745,793.6	55.8	1,567,012.3	45.5
Others	814,507.0	46.1	1,384,779.2	44.2	1,878,403.8	54.5

As illustrated above, Beijing OriginWater generated a substantial amount of its revenue in the Beijing area for the years ended 31 December 2012, 2013 and 2014, accounting for approximately 54.0%, 55.8% and 45.5% of its total revenue, respectively.

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

Out of the 35 projects of Beijing OriginWater, 18 projects are located in Beijing and only one project is located in Yunnan. Hence, Beijing OriginWater focuses its business mainly in Beijing, where our Group does not have any business. The revenue generated in 2014 by Beijing Clean, our subsidiary in Beijing, was derived from equipment sales for a municipal waste disposal project located in Guizhou, where Beijing OriginWater only sells water treatment equipment.

Based on the above, our Directors are of the view that as Beijing OriginWater's business and our Group's business focus on different geographical areas of the PRC, the potential competition between our Group and Beijing OriginWater is very limited in this regard.

3. *Product models and technology adopted*

Although our Company and Beijing OriginWater are engaged in the same industry, their respective business focuses in terms of project models and technology adopted are different.

Beijing OriginWater focuses heavily on membrane-related EPC projects and direct equipment sales. Over 60% of the primary business income generated by Beijing OriginWater during the Track Record Period was derived from membrane-related EPC projects and direct equipment sales. The rest of the water projects owned by Beijing OriginWater are one BT project, two O&M projects, and seven BOT projects as disclosed in this section. All of the seven BOT projects owned by Beijing OriginWater are at the planning construction stage.

On the other hand, our Company has a more balanced business focus. The revenue of our Company was contributed by a combination of construction and operation services for water supply and wastewater treatment facilities, as well as equipment sales.

Based on the consolidated management accounts of our Group, the respective contribution from different project models to the total revenue of our Group during the Track Record Period are set out below:

Revenue	For the years ended 31 December					
	2012		2013		2014	
	(RMB'000)	(%)	(RMB'000)	(%)	(RMB'000)	(%)
BOT	188,212	47.2	340,774	49.5	377,511	34.3
BT	—	—	—	—	206,537	18.8
EPC and equipment sales	66,629	16.7	185,349	26.9	263,539	23.9
TOT	14,063	3.5	16,785	2.4	42,813	3.9
BOO/TOO	128,222	32.2	141,965	20.6	179,327	16.3
Others	1,395	0.4	3,861	0.6	31,034	2.8
Total	398,521	100	688,734	100	1,100,761	100

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

For the years ended 31 December 2012, 2013 and 2014, approximately 16.7%, 26.9% and 23.9% of our Group's revenue were derived from EPC projects and equipment sales, while for the same period, over 60% of the operating revenue of Beijing OriginWater were derived from EPC projects and equipment sales. During the Track Record Period, we conducted our EPC business and equipment sales mainly in Yunnan, while Beijing OriginWater owned one EPC project in Yunnan. The business focus in terms of project model of our Group and Beijing OriginWater is therefore significantly different. Whilst a significant portion of our revenue is generated from BOT projects, the BOT projects engaged by Beijing OriginWater are at the planning or construction stage and part of them are held through associated companies over which Beijing OriginWater does not have management control.

In addition, the technology offerings of our Company and Beijing OriginWater are different.

Our Company's technology offerings are more diverse. In addition to the membrane filtration technology, our Company also offers activated sludge process and its derivative technologies, which are used by the majority of wastewater treatment facilities in the PRC according to EY Advisory. While Beijing OriginWater only offers membrane filtration technology and all of its water projects adopt such technology, out of our 63 concession water projects in total as at the Latest Practicable Date, only four projects of our Company adopted the membrane filtration technology, which only take up a small portion of our water projects. Although we have established the Membrane Production Plant and plan to manufacture membranes in the future, the membranes we manufacture in the near and medium term is expected to be mainly applied to our own concession projects with the remaining to be applied to our EPC or equipment sales. The potential competition is therefore very limited.

Our Directors are of the view that, in light of the differences in project models and technology adopted by Beijing OriginWater and our Group, the potential competition between our Group and Beijing OriginWater is very limited.

4. *Difference in target customer groups*

Wastewater treatment and water supply projects

The target customers of EPC projects usually only require turnkey services for the design and construction of the wastewater treatment and water supply facilities and the customers will operate the facilities themselves. Whereas the target customers of BOT, TOT, BOO, TOO and O&M projects require the operational service as they will not operate the facilities themselves. Therefore, our Directors are of the view that our Group and Beijing OriginWater target different groups of customers. In addition, during the Track Record Period and up to the Latest Practicable Date, there were no overlapping customers and suppliers between Beijing OriginWater and us.

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

As explained above, the business of Beijing OriginWater is materially different from that of our Company in terms of geographic locations, product models and technology, and target customer groups. Our Directors believe that the potential competition between Beijing OriginWater and our Company is very limited.

Moreover, Beijing OriginWater will hold approximately 24.92% of our issued share capital upon completion of the Global Offering, assuming the Over-allotment Options is not exercised and therefore will have limited influence on the operations of our Group.

Notwithstanding the above, our Company has entered into the Non-competition Agreement with Beijing OriginWater containing measures intended to address any concerns arising from the potential competition from Beijing OriginWater. Such measures include a non-competition undertaking that Beijing OriginWater and its associates will not engage, directly or indirectly, in any business that competes or may potentially compete with us in the Restricted Locations. See “Relationship with Our Controlling Shareholders — Non-competition Agreements with YMCI, Yunnan Province Water and Beijing OriginWater and Non-competition Undertaking by the Acting in Concert Parties” for further details.

Reasons for exclusion

Beijing OriginWater is a joint stock company, the shares of which are listed on the Shenzhen Stock Exchange. It is practically impossible for us to acquire its business and given the differences in business model as discussed above, we did not and have no intention to include the business of Beijing OriginWater in our Group.

Historical transactions with Beijing OriginWater

For the years ended 31 December 2012, 2013 and 2014, we have been purchasing membrane equipment and materials from Beijing OriginWater, in the aggregate purchasing amount of RMB469,000, RMB71,268,000 and RMB3,414,000, and accounted for 0.1%, 10.1% and 0.4% of our total purchase amount for the same periods, respectively. The historical non-membrane water equipment sold by our Group to Beijing OriginWater for the years ended 31 December 2012, 2013 and 2014 were approximately RMB42,339,000, nil and nil, respectively and accounted for 10.6%, nil and nil of our revenue for the same periods, respectively. We expect not to purchase membrane equipment and materials from Beijing OriginWater upon the Listing, given the expected commencement of operation of our Membrane Production Plant. In case we purchase membrane equipment and materials from Beijing OriginWater upon the Listing, we will comply with the connected transactions requirements under the Listing Rules.

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

NON-COMPETITION AGREEMENTS WITH YMCI, YUNNAN PROVINCE WATER, BEIJING ORIGINWATER AND NON-COMPETITION UNDERTAKING BY THE ACTING IN CONCERT PARTIES

(A) YMCI and Yunnan Province Water

Non-competition in the industry

We entered into a Non-competition Agreement with Yunnan Province Water and YMCI on 6 May 2015, pursuant to which each of YMCI and Yunnan Province Water agreed (i) that save and except for the Excluded Business disclosed above, each of them will not engage in any business that competes or is likely to compete, directly or indirectly, with our business within or outside PRC, and will procure its subsidiaries (excluding the Group) not to engage in any business that competes or is likely to compete, directly or indirectly, with our business, and (ii) that each of them will inform us of any new business opportunities and use their best efforts to procure such opportunities be made available to us.

Each of YMCI and Yunnan Province Water has also undertaken in the Non-competition Agreement that during the term of such deed, each of them will not, and will procure their respective subsidiaries not to:

- directly or indirectly engage in or participate in, or assist others to engage in or participate in, (whether alone or jointly with other persons), any business in any form (including but not limited to investment, mergers and acquisitions, joint operations, joint venture, cooperation agreement, partnership, contractor agreement, lease or purchase of shares of listed or private companies), that competes, or is likely to compete with our business; or
- assist any entity other than our Group to engage in business that competes, or is likely to compete, with our business, whether within or outside the PRC.

The above non-competition undertaking does not apply where YMCI or Yunnan Province Water or their respective subsidiaries through securities investment, hold in aggregate no more than 10% equity interest in a listed company, whose business competes or is likely to compete with our business.

New Business Opportunities

Pursuant to the Non-competition Agreement, each of YMCI and Yunnan Province Water has undertaken that, during the term of the Non-competition Agreement, if any of YMCI and Yunnan Province Water or their respective subsidiaries (for the purpose of the Non-Competition Agreement, excluding our Group) becomes aware of any new business opportunities which compete or are likely to compete, directly or indirectly, with our business (the “**New Business Opportunities**”), each of YMCI and Yunnan Province Water shall immediately notify our Company in writing of the New Business Opportunities (the “**Offer Notice**”) and use their best efforts to procure the New Business Opportunities be made

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

available to our Company or our subsidiaries on fair and reasonable terms and conditions. Our Company shall promptly (in any case no later than 20 business days from receipt of the Offer Notice) notify YMCI or Yunnan Province Water in the event that our Company decides not to take up the New Business Opportunities, and YMCI and Yunnan Province Water can then take up such New Business Opportunities.

Our independent non-executive Directors will be responsible for reviewing, considering and deciding whether or not to take up the New Business Opportunities. Any Directors who have an interest shall abstain from voting. In assessing whether or not to exercise the right to acquire the New Business Opportunities, our Directors will consider a range of factors including any feasibility study, counterparty risk, estimated profitability, our Group's business and the legal, regulatory and contractual landscape with a view to arriving at a decision which is in the best interests of our Shareholders and our Group as a whole.

Right of first offer

Pursuant to the Non-competition Agreement, each of YMCI and Yunnan Province Water has undertaken that during the term of the Non-competition Agreement, if any of YMCI and Yunnan Province Water intends to transfer, sell, lease, license or otherwise dispose of any of the Excluded Business or its equity interest in Circular Economy or Fengyuan Water or any other project company that competes or is likely to compete with our business to any third parties, YMCI or Yunnan Province Water shall immediately notify our Company in writing of its intention (the **"Selling Notice"**) and procure all necessary information to facilitate an investment decision be made available to our Company.

Our Board (based on the opinions of our independent non-executive Directors) will decide whether or not to acquire the Excluded Business or Circular Economy or Fengyuan Water or any other project company. Our Company will notify YMCI or Yunnan Province Water in writing within 20 business days from the date of the Selling Notice whether we wish to acquire the relevant Excluded Business or such project companies or not.

Before we provide our written reply within the requisite timeframe, YMCI and Yunnan Province Water shall not transfer, sell, lease, license or otherwise dispose of the relevant Excluded Business or the project companies to any third parties. If we decide not to or fail to reply within the requisite timeframe, YMCI and Yunnan Province Water may transfer, sell, lend or license the relevant Excluded Business or the project companies to any third parties on the terms no more favourable than those stated in the Selling Notice.

If we decide not to accept the terms and conditions stated in the Selling Notice, we are entitled to propose our acceptable terms to YMCI and Yunnan Province Water. If YMCI and Yunnan Province Water do not accept the terms we proposed, YMCI and Yunnan Province Water can proceed to transfer, sell, lease, license or otherwise dispose of the relevant Excluded Business or its project companies to any third parties on the terms no more favourable than those stated in the Selling Notice.

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

Right to acquire the Excluded Business

Each of YMCI and Yunnan Province Water has granted us a right, which is exercisable during the term of the Non-competition Agreement, to acquire any of their respective interests in Circular Economy and Fengyuan Water. We may exercise such right to acquire any Excluded Business from YMCI and Yunnan Province Water at any time whether or not YMCI and Yunnan Province Water intends to dispose of its interests in such Excluded Business. Through the entrustment of management of Circular Economy to our Company under the Share Entrustment Agreement, we will be able to track the status and performance of Circular Economy's projects that are being managed by us on a regular basis and therefore will be in a position to know whether it will meet our investment criteria. The terms and conditions of specific acquisitions of Circular Economy and Fengyuan Water are not fixed in the Non-competition Agreement. If we decide to exercise our right, the terms and conditions for the acquisition will be determined after arm's length negotiation.

Further Undertakings

Pursuant to the Non-competition Agreement, each of YMCI and Yunnan Province Water has further undertaken, among other things, that:

- (1) each of them shall not disclose any confidential or trade-sensitive information of the Group to any person or use any of such information for advancing their business without our written consent;
- (2) each of them shall not solicit any customer of the Group (whether past, present or future) to enter into any sales contract or concession agreement. It shall conduct conflict check with every new customer before entering into any agreement in order to ensure each of them will not enter into any sales contract or concession agreement with any customer of the Group (whether past, present or future);
- (3) each of them shall, upon request of our independent non-executive Directors, provide our independent non-executive Directors with all information necessary for their review of compliance with and implementation of the Non-competition Agreement by YMCI or Yunnan Province Water and their respective subsidiaries;
- (4) each of them shall keep us informed and shall procure their respective subsidiaries to provide all information required by our Board to assist them in their consideration of any New Business Opportunities;
- (5) each of them agrees that our Company will disclose the decisions made by our independent non-executive Directors on the compliance with and implementation of the Non-competition Agreement in our annual reports or announcements;
- (6) each of them shall provide a declaration annually on compliance with the terms of the Non-competition Agreement to our Company to facilitate our making of relevant disclosure in our annual reports; and

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

- (7) each of them shall indemnify our Group against any loss resulting from any breach of the non-competition undertaking by YMCI or Yunnan Province Water or their respective subsidiaries.

Termination

The Non-competition Agreement shall continue to be effective until the earlier of the occurrence of the following situations:

- (1) the date on which YMCI or Yunnan Province Water and their subsidiaries, in aggregate, directly or indirectly hold less than 30% of the entire issued share capital of our Company; or
- (2) the date on which the H Shares cease to be listed on the Stock Exchange, except that trading in the H Shares is temporarily suspended for any reason.

(B) Beijing OriginWater

Non-competition in the industry

We entered into a Non-competition Agreement with Beijing OriginWater on 6 May 2015, pursuant to which Beijing OriginWater (i) agreed, and will procure its subsidiaries, not to compete with the business of our Group in the Restricted Locations, other than the existing Overlapping Business carried out by Beijing OriginWater in such locations as at the date of the Non-competition Agreement; (ii) will inform us of any new business opportunities in the Restricted Locations (other than membrane EPC projects) in writing and use its best efforts to procure such opportunities be made available to us and (iii) will grant a right of first offer to our Group in the event that Beijing OriginWater intends to sell any of its project companies.

Beijing OriginWater has also undertaken in the Non-competition Agreement that during the term of such agreement, it will not, and will procure its subsidiaries not to:

- directly or indirectly engage in or participate in, or assist the engagement or participation in (whether alone or jointly with other persons), any business in any form (including but not limited to investment, mergers and acquisitions, joint operations, joint venture, cooperation agreement, partnership, contractor agreement or lease, purchase of shares of listed or private companies), that competes, or is likely to compete, with the our business in the Restricted Locations; or
- assist any entity other than our Group to engage in business that competes, or is likely to compete, with our business in the Restricted Locations.

The above non-competition undertaking does not apply where Beijing OriginWater or its subsidiaries, through securities investment, hold in aggregate no more than 10% equity interest in a listed company, whose business competes, or is likely to compete, with our business.

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

New Business Opportunities

Pursuant to the Non-competition Agreement, Beijing OriginWater has undertaken that, during the term of the Non-competition Agreement, if Beijing OriginWater or its subsidiaries becomes aware of any new business opportunities which compete or are likely to compete, directly or indirectly, with our business (other than EPC projects using membrane technology and direct equipment sales) (the “**New Business Opportunities**”), Beijing OriginWater shall immediately notify our Company in writing of the New Business Opportunities (the “**Offer Notice**”) and use its best efforts to procure the New Business Opportunities be made available to our Company or our subsidiaries on fair and reasonable terms and conditions. Our Company shall promptly (in any case no later than 20 business days from receipt of the Offer Notice) notify Beijing OriginWater in the event that our Company decides not to take up the New Business Opportunities, and Beijing OriginWater or its subsidiaries can then take up the New Business Opportunities. Subject to compliance with Chapters 14 and 14A of the Listing Rules, including announcement and shareholders’ approval requirements in connection with notifiable transactions and connected transactions, we have the right to establish joint venture project companies with Beijing OriginWater to conduct the New Business Opportunities, in which the maximum percentage of the equity interest held by Beijing OriginWater shall not exceed 30%, so as to ensure our control over such joint venture project companies. Our Company does not have any current plan to establish such joint venture project companies with Beijing OriginWater.

Our independent non-executive Directors will be responsible for reviewing, considering and deciding whether or not to take up the New Business Opportunities. Any Directors who have an interest shall abstain from voting. In assessing whether or not to exercise the right to acquire the New Business Opportunities, our Directors will consider a range of factors including any feasibility study, counterparty risk, estimated profitability, our Group’s business and the legal, regulatory and contractual landscape with a view to arriving at a decision which is in the best interests of our Shareholders and our Group as a whole.

Rights of first offer

Beijing OriginWater has also granted a right of first offer to our Company in the event that Beijing OriginWater intends to transfer, sell, lease or license any of its project companies which directly or indirectly compete, or are likely to compete with our business in the Restricted Locations. Beijing OriginWater shall immediately notify our Company in writing of the intention to sell, lend or license its project companies (the “**Selling Notice**”) and to procure all necessary information be made available to our Company. Our independent non-executive Directors will be responsible for reviewing, considering and deciding whether to exercise such right. Our Company is entitled to decide whether or not to take up such right in writing within 30 business days upon the receipt of the Selling Notice. Before expiry of the 30 business days, Beijing OriginWater shall not sell such project company to other third parties. If we decide not to or fail to reply within the requisite timeframe, Beijing OriginWater may transfer, sell, lease or license such project companies to third parties on the terms no more favourable than those

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

stated in the Selling Notice. If we refuse to accept terms set out in the Selling Notice, we may counter-offer terms acceptable by us to Beijing OriginWater. If Beijing OriginWater decides not to accept our counter-offer, it may transfer, sell, lease or license such project companies to third parties on the terms no more favourable than those stated in the Selling Notice.

Further Undertakings

Pursuant to the Non-competition Agreement, Beijing OriginWater has further undertaken, among other things, that:

- (1) it shall not disclose any confidential or trade-sensitive information of the Group to any person or use any of such information for advancing the business of Beijing OriginWater without our consent;
- (2) it shall not solicit any customer of the Group (whether past, present or future) to enter into any sales contract or concession agreement. It shall conduct conflict check with every new customer before entering into any agreement in order to ensure Beijing OriginWater will not enter into any sales contract or concession agreement with any customer of the Group (whether past, present or future);
- (3) it shall, upon request of our independent non-executive Directors, provide them with all information necessary for their review of compliance with and implementation of the Non-competition Agreement by Beijing OriginWater and its subsidiaries;
- (4) it shall keep us informed and shall use reasonable efforts to procure its subsidiaries to provide all information necessary for our consideration of whether to exercise any right under the Non-competition Agreement;
- (5) it agrees that our Company will disclose the decisions made by our independent non-executive Directors on the compliance with and implementation of the Non-competition Agreement in our annual reports or announcements;
- (6) it shall provide a declaration annually on compliance with the terms of the Non-competition Agreement to our Company to facilitate our making of relevant disclosure in our annual reports; and
- (7) it shall indemnify our Group against any loss resulting from any breach of the non-competition undertaking by Beijing OriginWater or its subsidiaries.

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

Termination

The Non-competition Agreement shall continue to be effective until the earlier of the occurrence of the following situations:

- (1) the date on which Beijing OriginWater and its subsidiaries, in aggregate, directly or indirectly, hold less than 10% of the entire issued share capital of our Company; or
- (2) the date on which the H Shares cease to be listed on the Stock Exchange, except that trading in the H Shares is temporarily suspended for any reason.

(C) Acting in Concert Parties

Non-competition in the industry

The Acting in Concert Parties entered into the Non-competition Undertaking on 6 May 2015, pursuant to which each of them agreed (i) that each of them will not engage in any business that competes or is likely to compete, directly or indirectly, with our business within or outside PRC, and will procure their subsidiaries (excluding the Group) and their associates not to engage in any business that competes or is likely to compete, directly or indirectly, with our business, and (ii) that each of them will inform us of any new business opportunities and use their best efforts to procure such opportunities be made available to us.

Each of the Acting in Concert Parties has also undertaken in the Non-competition Undertaking that during the term of such deed, each of them will not, and will procure their respective subsidiaries and associates not to:

- directly or indirectly engage in or participate in, or assist others to engage in or participate in, (whether alone or jointly with other persons), any business in any form (including but not limited to investment, mergers and acquisitions, joint operations, joint venture, cooperation agreement, partnership, contractor agreement or lease, purchase of shares of listed or private companies), that competes, or is likely to compete with our business; or
- assist any entity other than our Group to engage in business that competes, or is likely to compete, with our business, whether within or outside the PRC.

The above non-competition undertaking does not apply where any of the Acting in Concert Parties or their respective subsidiaries through securities investment, hold in aggregate no more than 10% equity interest in a listed company, whose business competes or is likely to compete with our business.

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

New Business Opportunities

Pursuant to the Non-competition Undertaking, each of the Acting in Concert Parties has undertaken that, during the term of the Non-competition Undertaking, if any of the Acting in Concert Parties or their respective subsidiaries (for the purpose of the Non-Competition Undertaking, excluding our Group) becomes aware of any new business opportunities which compete or are likely to compete, directly or indirectly, with our business (the “**New Business Opportunities**”), each of the Acting in Concert Parties shall immediately notify our Company in writing of the New Business Opportunities (the “**Offer Notice**”) and use their best efforts to procure the New Business Opportunities be made available to our Company or our subsidiaries on fair and reasonable terms and conditions. Our Company shall promptly (in any case no later than 20 business days from receipt of the Offer Notice) notify the Acting in Concert Parties in the event that our Company decides not to take up the New Business Opportunities, and the Acting in Concert Parties can then take up such New Business Opportunities.

Our independent non-executive Directors will be responsible for reviewing, considering and deciding whether or not to take up the New Business Opportunities. Any Directors who have an interest shall abstain from voting. In assessing whether or not to exercise the right to acquire the New Business Opportunities, our Directors will consider a range of factors including any feasibility study, counterparty risk, estimated profitability, our Group’s business and the legal, regulatory and contractual landscape with a view to arriving at a decision which is in the best interests of our Shareholders and our Group as a whole.

Further Undertakings

Pursuant to the Non-competition Undertaking, each of the Acting in Concert Parties has further undertaken, among other things, that:

- (1) each of them shall not disclose any confidential or trade-sensitive information of the Group to any person or use any of such information for advancing their business;
- (2) each of them shall not solicit any customer of the Group (whether past, present or future) to enter into any sales contract or concession agreement. It shall conduct conflict check with every new customer before entering into any agreement in order to ensure each of them will not enter into any sales contract or concession agreement with any customer of the Group (whether past, present or future) without our written consent;
- (3) each of them shall, upon request of our independent non-executive Directors, provide our independent non-executive Directors with all information necessary for their review of compliance with and implementation of the Non-competition Undertaking by the Acting in Concert Parties and their respective subsidiaries;

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

- (4) each of them shall keep us informed and shall procure their respective subsidiaries to provide all information required by our Board to assist them in their consideration of any New Business Opportunities;
- (5) each of them agrees that our Company will disclose the decisions made by our independent non-executive Directors on the compliance with and implementation of the Non-competition Undertaking in our annual reports or announcements;
- (6) each of them shall provide a declaration annually on compliance with the terms of the Non-competition Undertaking to our Company to facilitate our making of relevant disclosure in our annual reports; and
- (7) each of them shall indemnify our Group against any loss resulting from any breach of the non-competition undertaking by any of the Acting in Concert Parties or their respective subsidiaries.

Termination

The Non-competition Undertaking shall continue to be effective until the earlier of the occurrence of the following situations:

- (1) the date on which the Acting in Concert Parties cease to act in concert with Yunnan Province Water; or
- (2) the date on which the H Shares cease to be listed on the Stock Exchange, except that trading in the H Shares is temporarily suspended for any reason.

Our PRC legal advisers, Jia Yuan Law Offices, consider that the terms of the Non-competition Agreements and the Non-competition Undertaking do not violate any relevant mandatory provisions of PRC laws and the agreements are legally binding on YMCI, Yunnan Province Water, Beijing OriginWater and the Acting in Concert Parties.

CORPORATE GOVERNANCE MEASURES

We will also adopt the following corporate governance measures to ensure that the undertakings under the Non-Competition Agreement and the Non-competition Undertaking are observed:

- (i) our Company will provide written notices to our independent non-executive Directors in respect of the New Business Opportunities passed on to us by any of the Controlling Shareholders within three days from the receipt of such notices;
- (ii) our independent non-executive Directors will report and conduct an annual review, and we will disclose in our annual reports or announcements, the findings, decisions

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

and the basis of any decisions made by our independent non-executive Directors on the compliance by any of the Controlling Shareholders with and implementation of the Non-competition Agreement or the Non-competition Undertaking, as well as the reason why any New Business Opportunities, if any, have not been taken up; and

- (iii) our Directors are of the view that our independent non-executive Directors have sufficient experience in assessing whether or not to pursue any New Business Opportunities. If our independent non-executive Directors consider that approvals from our independent Shareholders are required for such opportunity under the Listing Rules, they may appoint an independent financial advisor or other professionals, at our expense, to advise on the suitability of exercising our rights under the Non-competition Agreements.

Independence from the Controlling Shareholders

Having considered the following factors, we believe that following the Global Offering, we can conduct our business independently from our Controlling Shareholders and their respective associates.

Operational independence

We are currently using two patented technologies owned by Beijing OriginWater for our membrane application and wastewater treatment. Pursuant to the Patent Licence Agreement we entered into with Beijing OriginWater on 19 September 2014, we are authorised to exclusively use these two patented technologies on a free-of-charge basis. The two patented technologies only form small part of our membrane application and wastewater treatment. We are in the course of developing our own technologies which will replace the patented technologies licensed by Beijing OriginWater. See “Connected Transactions” for details of the licensing agreement.

Save as disclosed in the section headed “Business” in this prospectus, we own or have the right to use all the operational facilities and technologies relating to our business and hold all relevant qualifications, licences and permits. We currently conduct our principal business independently and we have the ability to formulate and implement operational decisions independently. We also communicate with and serve our clients independently. We have sufficient capital, facilities and employees to operate our business independently. Save as set out in “Relationship with our Controlling Shareholders — Corporate Governance Measures — Independence from the Controlling Shareholders — Management Independence”, our other employees are independent from, and none of them are remunerated by, our Controlling Shareholders and their respective associates.

We have our own organisational structure and departments with specific authorities independent from our Controlling Shareholders. We also maintain a comprehensive set of

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

internal control procedures for promoting efficient business operation. With reference to relevant laws, regulations and rules, we develop sound corporate governance practice and have adopted our rules of procedure for general meeting, rules of procedure for board meeting, rules of procedure for supervisory committee meeting and connected transactions rules.

The historical aggregated purchase amount for purchases of membrane equipment and materials payable to Beijing OriginWater were RMB469,000, RMB71,268,000 and RMB3,414,000 for the three years ended 31 December 2012, 2013 and 2014, respectively, and accounted for 0.1%, 10.1% and 0.4% of our total purchases for the same periods, respectively. The historical non-membrane water equipment sold by our Group to Beijing OriginWater for the years ended 31 December 2012, 2013 and 2014 were approximately RMB42,339,000, nil and nil, respectively, and accounted for 10.6%, nil and nil of our revenue for the same periods, respectively. However, our Group intends to terminate the purchase from and provision of equipment to Beijing OriginWater upon Listing. Save as disclosed in this section and “Connected Transactions”, there were no significant business transactions between our Group and our Controlling Shareholders or their respective associates during the Track Record Period.

In view of the aforesaid reasons, our Directors believe that we can operate independently from our Controlling Shareholders.

Financial Independence

Our financial department is independent from our Controlling Shareholders, and composed of independent financial staff. Its responsibilities include, among others, financial control, accounting, financial reporting, group credit, internal control. None of our financial staff works for our Controlling Shareholders and/or their respective associates. We are capable of making financial decisions independently, and our Controlling Shareholders will not interfere with our use of funds. We have established an independent audit system, a standardised financial and accounting system and a comprehensive financial management system. In addition, we manage our bank accounts independently, and do not share any bank accounts with our Controlling Shareholders and/or their respective associates. We conduct our tax registration and pay taxes independently according to the PRC tax laws and regulations, rather than on a combined basis with our Controlling Shareholders or any of their respective associates.

As at the Latest Practicable Date, we had no outstanding loans, current account balances, financial assistance or financing in any other forms from our Controlling Shareholders or their respective associates; and had not provided any outstanding securities, loans or any other forms of financial assistance to our Controlling Shareholders or their respective associates. Therefore, our Directors believe that our financial operation is independent from our Controlling Shareholders.

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

Management Independence

The Board is comprised of 12 Directors. Apart from Mr. Wen Jianping and Mr. He Yuanping, who hold a position in Beijing OriginWater, Mr. Xu Lei and Mr. Jiao Jun, who hold a position in YMCI, the sole shareholder of Yunnan Province Water, the other four Directors and four independent non-executive Directors do not hold any directorship or senior management positions in our Controlling Shareholders. Among these 12 Directors, three are executive Directors, five are non-executive Directors and four are independent non-executive Directors.

The following table sets forth the positions held by our Directors and Supervisors in our Controlling Shareholders:

Name of Director/Supervisor	Position held in our Company	Position held in our Controlling Shareholders
Mr. Xu Lei	Chairman, non-executive Director	chairman, director, YMCI and Yunnan Province Water
Mr. Wen Jianping	non-executive Director	chairman, director, Beijing OriginWater
Mr. Jiao Jun	non-executive Director	deputy general manager, YMCI
Mr. He Yuanping	non-executive Director	director, chief financial officer, deputy general manager, board secretary, Beijing OriginWater
Ms. Wang Shuqing	Supervisor	deputy chief financial officer, Beijing OriginWater
Ms. Li Bo	Supervisor	board office director, YMCI

Save as disclosed above, our Directors have no interest in any business which competes or is likely to compete, with our business, that requires disclosure under Rule 8.10(2) of the Listing Rules.

Except for the above-listed individuals, none of the Directors, Supervisors and senior management of our Company hold any directorship or senior management position in our Controlling Shareholders or their respective associates.

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

The aforesaid Directors/Supervisors who also hold a position at our Controlling Shareholders are all non-executive Directors of our Company and will not be involved in the day-to-day management of our Company.

We believe our Directors, Supervisors and senior management can independently perform their duties in our Company and we can operate independently from our Controlling Shareholders due to the following reasons:

- (a) the decision-making mechanism of the Board as specified in our Articles of Association has set out relevant provisions to avoid conflicts of interest, including but not limited to: (i) disclosure of conflicting interest to the Board; (ii) if the relevant proposal causes conflicts of interest between our Group and our Controlling Shareholders, the Director(s) associated with our Controlling Shareholders should abstain from voting and should not attend or be included in the quorum of the meeting of the Board; (iii) when connected transaction(s) are considered, independent non-executive Directors of our Company shall give their independent opinions to the Board on the relevant connected transaction(s) pursuant to the Listing Rules;
- (b) we have appointed four independent non-executive Directors (accounting for one-third of the Board) to balance the numbers of interested Director(s) and independent non-executive Directors for the protection of the interests of the Group and the Shareholders as a whole;
- (c) save as disclosed above, none of our Directors and members of the senior management holds any directorship and senior management positions in our Controlling Shareholders or their respective associates. As our management team is different from our Controlling Shareholders, there are sufficient non-overlapping Directors who are independent from our Controlling Shareholders and possess relevant experience to ensure that the Board is able to perform its functions properly; and
- (d) our Directors are well aware of their fiduciary duties which, among other things, require them to act in the best interests of our Group and our Shareholders as a whole.

To conclude, the Directors believe that our management team is independent from our Controlling Shareholders.

CORNERSTONE INVESTORS

CORNERSTONE PLACING

We have entered into cornerstone investment agreements with the following investors (the **“Cornerstone Investors”**, each a **“Cornerstone Investor”**), pursuant to which the Cornerstone Investors have agreed to subscribe at the Offer Price for such number of Offer Shares (rounded down to the nearest whole board lot of 1,000 H Shares) that may be purchased for an aggregate amount of US\$75.0 million (approximately HK\$585.0 million) (the **“Cornerstone Placing”**). Assuming an Offer Price of HK\$5.00 (being the low-end of the indicative Offer Price range stated in this prospectus), the total number of H Shares to be subscribed for by the Cornerstone Investors would be 117,000,000, representing approximately 10.17% of the Shares in issue upon the completion of the Global Offering and 36.99% of the H shares issued pursuant to the Global Offering, assuming that the Over-allotment Option is not exercised. Assuming an Offer Price of HK\$5.40 (being the mid-point of the indicative Offer Price range stated in this prospectus), the total number of H Shares to be subscribed for by the Cornerstone Investors would be 108,331,000, representing approximately 9.42% of the Shares in issue upon the completion of the Global Offering and 34.25% of the H Shares issued pursuant to the Global Offering, assuming that the Over-allotment Option is not exercised. Assuming an Offer Price of HK\$5.80 (being the high-end of the indicative Offer Price range stated in this prospectus), the total number of H Shares to be subscribed for by the Cornerstone Investors would be 100,859,000, representing approximately 8.77% of the Shares in issue upon the completion of the Global Offering and 31.89% of the H Shares issued pursuant to the Global Offering, assuming that the Over-allotment Option is not exercised.

Each of the Cornerstone Investors and their respective beneficial owners, is an Independent Third Party and is not our connected person, and is not an existing Shareholder of our Company. Each of the Cornerstone Investors is independent to each other. Details of the actual number of Offer Shares to be allocated to the Cornerstone Investors are expected to be disclosed in the allotment results announcement to be issued by our Company on or before 26 May 2015.

The Cornerstone Placing forms part of the International Offering. The Offer Shares to be subscribed for by the Cornerstone Investors will rank *pari passu* in all respects with the other fully paid H Shares in issue and will be counted towards the public float of our Company. Immediately following the completion of the Global Offering, none of the Cornerstone Investors will have any board representation in our Company, nor will any of the Cornerstone Investors become a substantial Shareholder of our Company as defined under the Listing Rules. The Offer Shares to be subscribed for by the Cornerstone Investors will not be affected by any reallocation of the Offer Shares between the International Offering and the Hong Kong Public Offering described in “Structure of the Global Offering — The Hong Kong Public Offering”.

CORNERSTONE INVESTORS

CORNERSTONE INVESTORS

We set forth below details regarding the Cornerstone Placing including a brief descriptions of the Cornerstone Investors:

Cornerstone Investor	Investment Amount (US\$ million)	Assuming an Offer Price of HK\$5.40, being the mid-point of the Offer Price range
		<i>Approximate percentage of the Shares in issue immediately following the completion of the Global Offering (assuming that the Over-allotment Option is not exercised)</i>
Dragonfair International Investment Limited	30.0	3.77%
Value Partners Hong Kong Limited	12.0	1.51%
China Construction Investment Co., Ltd	10.0	1.26%
North Industries Group Investment Management Company Ltd.	10.0	1.26%
Guangxi Beibu Gulf Industrial Investment Fund (Limited Partnership)	8.0	1.00%
Chongqing China Innovative Investment Co., Ltd.	5.0	0.63%

Dragonfair International Investment Limited

Dragonfair International Investment Limited (“**Dragonfair**”) has agreed to subscribe for such number of H Shares (rounded down to the nearest whole board lot of 1,000 H Shares) which may be purchased with an aggregate amount of US\$30.0 million (approximately HK\$234.0 million) at the Offer Price. Assuming an Offer Price of HK\$5.40, being the mid-point of the Offer Price range set out in this prospectus, the total number of H Shares that Dragonfair would subscribe for would be 43,333,000, representing approximately 3.77% of the Shares in issue immediately following the completion of the Global Offering, assuming that the Over-allotment Option is not exercised.

Dragonfair is an investment company incorporated in Hong Kong. Dragonfair focuses on the investments in the environmental protection enterprises in the PRC. Dragonfair has actively invested in the environmental protection and new energy enterprises listed on the Stock Exchange by investing in the secondary stock market in Hong Kong.

CORNERSTONE INVESTORS

Value Partners Hong Kong Limited

Value Partners Hong Kong Limited (“**Value Partners HK**”) has agreed to subscribe for such number of H Shares (rounded down to the nearest whole board lot of 1,000 H Shares) which may be purchased with an aggregate amount of US\$12.0 million (approximately HK\$93.6 million) at the Offer Price. Assuming an Offer Price of HK\$5.40, being the mid-point of the Offer Price range set out in this prospectus, the total number of H Shares that Value Partners HK would subscribe for would be 17,333,000, representing approximately 1.51% of the Shares in issue immediately following the completion of the Global Offering, assuming that the Over-allotment Option is not exercised.

Value Partners HK (together with other subsidiaries under Value Partners Group Limited, “**Value Partners**”) was established in 1999. It acts as investment manager or investment advisor to certain investment funds. It is a wholly-owned subsidiary of Value Partners Group Limited, a company listed on the Stock Exchange (stock code: 806). Value Partners is one of Asia’s largest independent asset management firms headquartered in Hong Kong. Value Partners manages absolute return long-biased funds, long-short hedge funds, exchange-traded funds, quantitative funds, as well as fixed income products for institutional and individual clients in Asia Pacific, Europe and the United States.

China Construction Investment Co., Ltd

China Construction Investment Co., Ltd (“**CC Investment**”) has agreed to subscribe through an asset manager that is a qualified domestic institutional investor (“**QDII**”), or to procure such asset manager to subscribe on its behalf, such number of H Shares (rounded down to the nearest whole board lot of 1,000 H Shares) which may be purchased with an aggregate amount of US\$10.0 million (approximately HK\$78.0 million) at the Offer Price. Assuming an Offer Price of HK\$5.40, being the mid-point of the Offer Price range set out in this prospectus, the total number of H Shares that CC Investment would subscribe for would be 14,444,000, representing approximately 1.26% of the Shares in issue immediately following the completion of the Global Offering, assuming that the Over-allotment Option is not exercised.

CC Investment, a company incorporated in the PRC, is a wholly-owned subsidiary of China Architecture Design & Research Group (“**CAG**”), which is a large-scale state-owned enterprise directly owned by SASAC of State Council. CC Investment’s principal activities include, among others, project management and equity investment and management. CAG’s principal activities include survey, design, service and construction contracting for construction and municipal engineering.

CORNERSTONE INVESTORS

North Industries Group Investment Management Company Ltd.

North Industries Group Investment Management Company Ltd. (“**NI Investment**”) has agreed to subscribe through an asset manager that is a QDII, or to procure such asset manager to subscribe on its behalf, such number of H Shares (rounded down to the nearest whole board lot of 1,000 H Shares) which may be purchased with an aggregate amount of US\$10 million (approximately HK\$78.0 million) at the Offer Price. Assuming an Offer Price of HK\$5.4, being the mid-point of the Offer Price range set out in this prospectus, the total number of H Shares that NI Investment would subscribe for would be 14,444,000, representing approximately 1.26% of the Shares in issue immediately following the completion of the Global Offering, assuming that the Over-allotment Option is not exercised.

Established on 18 March 2014, NI Investment is a wholly-owned subsidiary of China North Industries Group Corporation with a registered capital of RMB1.0 billion. It will adhere to the strategy of systematic and lean management on the whole value chain, and implement a market-oriented, standardised and specialised operation mode. Through the provision of financial services and capital operation, it will promote the effective integration of the industrial capital in the ordnance industry and the financial capital in the society, and gradually explore and establish its peculiar modes of equity operation, asset operation and management and financial investment.

Guangxi Beibu Gulf Industrial Investment Fund (Limited Partnership)

Guangxi Beibu Gulf Industrial Investment Fund (Limited Partnership) (“**Beibu Gulf Fund**”) has agreed to subscribe through an asset manager that is a QDII, or to procure such asset manager to subscribe on its behalf, such number of H Shares (rounded down to the nearest whole board lot of 1,000 H Shares) which may be purchased with an aggregate amount of US\$8.0 million (approximately HK\$62.4 million) at the Offer Price. Assuming an Offer Price of HK\$5.4, being the mid-point of the Offer Price range set out in this prospectus, the total number of H Shares that Beibu Gulf Fund would subscribe for would be 11,555,000, representing approximately 1.00% of the Shares in issue immediately following the completion of the Global Offering, assuming that the Over-allotment Option is not exercised.

Beibu Gulf Fund is a national large-scale industrial investment fund with total authorised fund size of RMB20.0 billion. Its establishment was initiated by The People’s Government of Guangxi Zhuang Autonomous Region and officially approved by the NDRC. Beibu Gulf Fund will provide a linkage between domestic and foreign capital resources, especially resources in the Guangxi Zhuang Autonomous Region. Beibu Gulf Fund is mainly engaged in investment in industries related to the Beibu Gulf and West River Economic Belt and strategic emerging industries, such as environmental protection, new energy and resource-based sectors.

CORNERSTONE INVESTORS

Chongqing China Innovative Investment Co., Ltd.

Chongqing China Innovative Investment Co., Ltd. (“**CI Investment**”) has agreed to subscribe through an asset manager that is a QDII, or to procure such asset manager to subscribe on its behalf, such number of H Shares (rounded down to the nearest whole board lot of 1,000 H Shares) which may be purchased with an aggregate amount of US\$5.0 million (approximately HK\$39.0 million) at the Offer Price. Assuming an Offer Price of HK\$5.40, being the mid-point of the Offer Price range set out in this prospectus, the total number of H Shares that CI Investment would subscribe for would be 7,222,000, representing approximately 0.63% of the Shares in issue immediately following the completion of the Global Offering, assuming that the Over-allotment Option is not exercised.

CI Investment is a company incorporated in Chongqing, the PRC. CI Investment is an investment holding company controlled by China Innovative Capital Management Limited (“**CI Capital**”), which holds 95% of the equity interest of CI Investment. CI Capital was incorporated in the PRC in 2011 with a registered capital of RMB400.0 million. CI Capital is a leading private equity investment firm in the PRC registered under the Securities Association of China and Asset Management Association of China. CI Capital strives to be a leading firm in the PRC focusing on equity investment in, and assets management of, listed companies. CI Capital engages in private placement investments, assets reorganisations, secondary market investments, overseas market investment, “new third board” (新三板) investment strives and financial services.

CONDITIONS PRECEDENT

The subscription obligation of each Cornerstone Investor is subject to, among other things, the following conditions precedent:

- (a) the underwriting agreement for the Hong Kong Public Offering and the underwriting agreement for the International Offering being entered into by, inter alia, the Company and the Sole Global Coordinator and having become effective and unconditional (in accordance with their respective original terms or as subsequently varied or waived (to the extent it may be waived) by agreement of the relevant parties thereto) by no later than the time and date as specified in these underwriting agreements or such later time and date as may be agreed by the Sole Global Coordinator;
- (b) none of the aforesaid underwriting agreements having been terminated;
- (c) the Listing Committee of the Stock Exchange having granted the approval for the listing of, and permission to deal in, the H Shares and that such approval or permission not having been revoked prior to the commencement of dealings in the H Shares on the Stock Exchange;

CORNERSTONE INVESTORS

- (d) the respective representations, warranties, undertakings, confirmations, agreements and acknowledgements of the Cornerstone Investor and its guarantor (if applicable) and the Company are (as at the date of the Cornerstone Investment Agreements) and will be (as at the Listing Date and, where applicable, the delayed delivery date) true, accurate and not misleading and there being no material breach of the relevant Cornerstone Investment Agreement on the part of the Cornerstone Investor and its guarantor (if applicable); and
- (e) no Laws shall have been enacted or promulgated which prohibit the consummation of the transactions contemplated in the Hong Kong Public Offering, the International Offering or under the Cornerstone Investment Agreements and no orders or injunctions from a court of competent jurisdiction in effect precluding or prohibiting consummation of such transactions.

RESTRICTIONS ON DISPOSALS BY THE CORNERSTONE INVESTORS

Each of the Cornerstone Investors has agreed that, without the prior written consent of the Company and the Sole Global Coordinator, it will not, whether directly or indirectly, at any time during a period of six months starting from and inclusive of the Listing Date, dispose of (as defined in the relevant cornerstone investment agreements) any of the H Shares subscribed for by it pursuant to the relevant cornerstone investment agreement. Each Cornerstone Investor may transfer the H Shares so subscribed in certain limited circumstances as set out in the relevant cornerstone investment agreement, such as transfer to a wholly-owned subsidiary of such Cornerstone Investor, provided that such wholly-owned subsidiary undertakes in writing, and such Cornerstone Investor undertakes in writing to procure, that such wholly-owned subsidiary agrees to be subject to the restrictions on disposals imposed on the Cornerstone Investor.

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You should read the following discussion and analysis of our financial condition and results of operations together with our audited financial statements as at and for each of the years ended 31 December 2012, 2013 and 2014 and the accompanying notes included in the Accountant's Report set out in Appendix I. The Accountant's Report has been prepared in accordance with HKFRS. Potential investors should read the Accountant's Report and not rely merely on the information contained in this section.

The following discussion and analysis contains forward-looking statements that involve risks and uncertainties. For additional information regarding these risks and uncertainties, see "Risk Factors".

OVERVIEW

We are one of the leading integrated service providers in the municipal wastewater treatment and water supply industries in Yunnan province, the PRC. According to the EY Report, in 2013, we ranked first in terms of both the number of our wastewater treatment facilities and the number of water supply facilities in Yunnan. In 2013, we had a market share of 26.2% and 6.1% in terms of the designed daily capacity of our wastewater treatment and water supply facilities in Yunnan, respectively.

Our business comprises four main segments, namely wastewater treatment, water supply, construction and equipment sales and others, which comprises O&M wastewater treatment, water supply and municipal waste disposal projects. These four segments cover the full spectrum of the water industry, ranging from raw water supply, tap water supply and wastewater treatment to engineering services, equipment sales and system integration. As at the Latest Practicable Date, we had a total of 92 projects, 63 of which were under concession arrangement. We engage in project design, investment, construction, operation and maintenance, provision of turnkey solutions and system integration services of core technologies with a view to providing safe, convenient and environmentally friendly wastewater treatment and water supply services to residents and enterprises in the PRC.

We first established our foothold in Yunnan and have gradually expanded our presence into Xinjiang, Shandong, Jiangsu and Guizhou since 2013. In 2012, 2013 and 2014, we derived approximately 100%, 82.9% and 74.2% of our revenue, respectively, from our subsidiaries registered in Yunnan, and approximately nil, 17.1% and 25.8% of our revenue, respectively, from our subsidiaries registered in other parts of the PRC. As at the Latest Practicable Date, we had 47 wastewater treatment concession projects, 15 tap water supply concession projects and one raw water supply concession project, with a total designed daily capacity of 0.9 million tonnes, 0.4 million tonnes and 0.1 million tonnes, respectively.

In March 2015, we completed the disposal of the Gantong Water Supply Plant due to the uncertainty in relation to the timing of obtaining the relevant land use right certificate for the land underlying this plant. In the same month, we terminated the proposed disposal of the Mengzi Wastewater Treatment Plant because the land use right certificate for the land

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underlying this plant had been obtained. See “History, Reorganisation and Corporate Structure”. While the information and data regarding our properties as at the Latest Practicable Date have given effect to the disposal of the Gantong Water Supply Plant, the financial information of such plant has been included in our consolidated financial information during the Track Record Period pursuant to HKFRS. During the Track Record Period, revenue from the Gantong Water Supply Plant contributed an insignificant amount to our results of operations.

BASIS OF PRESENTATION

We commenced our wastewater treatment and water supply businesses in 2009 through various operating subsidiaries and joint venture companies held by Yunnan Province Water, our largest Controlling Shareholder. Our predecessor, Yunnan Water Co., was established on 21 June 2011. When our predecessor was established, Yunnan Province Water transferred its equity interests in 29 operating subsidiaries and joint venture companies and nine investment projects amounting to RMB663.5 million to our predecessor in exchange for 51% of the equity interests of our predecessor, along with a cash consideration of RMB67.0 million paid to Yunnan Province Water by us, and Beijing OriginWater invested RMB600.0 million in cash into our predecessor in exchange for 49% of the equity interests of our predecessor. As a result, our predecessor became the holding company of the 29 operating subsidiaries and joint venture companies and nine investment projects which were originally held by Yunnan Province Water. On 22 July 2014, our predecessor was converted into a joint stock limited company as part of the Corporate Reorganisation. Our Company retained all of the assets and liabilities of our predecessor. See “History, Reorganisation and Corporate Structure”. The Corporate Reorganisation was merely a reorganisation of our business with no change in management. Accordingly, the consolidated financial information of the companies comprising our Group is presented using the carrying values of our business under YMCI for all the years and periods presented. For companies acquired from a third party during each of the years ended 31 December 2012, 2013 and 2014, they are included in our consolidated financial statements from the date of the acquisition to the date of disposal, where applicable.

Our consolidated financial information throughout the Track Record Period has been prepared in accordance with HKFRS. All material intra-group transactions and balances have been eliminated upon consolidation.

SIGNIFICANT FACTORS AFFECTING OUR RESULTS OF OPERATIONS AND FINANCIAL CONDITION

Our results of operations and financial condition have been and will continue to be affected by a number of factors, including the following:

The demand for our services and our ability to expand our business in the PRC

Our performance is largely affected by the level of demand for municipal wastewater treatment and water supply services in the PRC. We intend to further grow our wastewater treatment business, water supply business, construction and equipment sales business and

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O&M business. Demand for such services and products in the PRC stems from rapid population growth, industrialisation, urbanisation, changing economic conditions, macroeconomic policies, regulatory requirements pertaining to our industry and an increasing focus on environmental protection. We believe these factors will continue to have an impact on the demand for our wastewater treatment business, water supply business, construction and equipment sales business and O&M business, which in turn will affect our financial condition, results of operations and prospects.

The PRC Government's expenditures on the water industry affect, to a large extent, the demand for municipal wastewater treatment and water supply services in the PRC. In recent years, the PRC Government has increased its spending on wastewater treatment and water supply facilities. The PRC Government issued the '12th Five-Year Plan' for Construction of National Municipal Wastewater Treatment and Recycling Facilities (“十二五”全國城鎮污水處理及再生利用設施建設規劃) and the '12th Five-Year Plan' and 2020 Vision for Renovation and Construction of National Municipal Water Supply Facilities (全國城鎮供水設施改造與建設“十二五”規劃及2020年遠景目標) in 2012, which specify detailed construction targets which require the local governments in the PRC to speed up the construction of wastewater treatment and water supply plants. Our business has benefited from such increased spending by the local governments in the PRC.

We anticipate that this increase in spending by the PRC Government will continue in the future, which will in turn result in additional growth opportunities. We will focus our resources to expand and strengthen our services in response to the increase in demand brought about by the increase in spending by the PRC Government. We believe such increase in demand for our services will lead to an increase in our revenue. However, we cannot assure you that the PRC Government will not change its current policies relating to the water industry, which may in turn affect the outlook of our business and results of operations. See “Risk Factors — Risks Relating to our Business and Industry — We are exposed to risks associated with entering into contracts with the local governments in the PRC, and our performance may be significantly affected by government spending on infrastructure and other projects”.

Expansion of our business

Our ability to expand our business, either through acquisition or organic development, affects our business growth and results of operations. During the Track Record Period, our scale of business increased due to, among other things, the consolidation of the results of operations of (i) OrginWater Technology, which engages in EPC & equipment sales, beginning in October 2012; (ii) Liuku Water, which engages in water supply, beginning in June 2014; (iii) the Gejiu Wastewater Treatment Plant and Mengzi Wastewater Treatment Plant, which are both owned by Honghe Water and provide wastewater treatment services, beginning in May 2014; (iv) Mengla Quanyuan Water Supply Co., Ltd., which engages in water supply, beginning in April 2013; (v) Guoqing Environmental, which engages in construction and equipment sales and O&M projects, beginning in September 2013; (vi) Beijing Clean, which engages in

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construction services and municipal waste disposal projects, beginning in January 2014; and (vii) Wuxi Zhongfa Water, which engages in wastewater treatment, beginning in May 2014. Meanwhile, the number of our concession projects increased from 45 as at 31 December 2012 to 63 as at 31 December 2014.

In the future, we will continue to expand our business either through acquisition or organic development, which could impact our business, financial condition, results of operations and prospects. See “Risk Factors — Risks Relating to our Business and Industry — Our further expansion may place strain on our resources”.

Access to capital and finance costs

Our businesses are capital intensive. We need substantial capital for the expansion of our business as well as for the construction and acquisition of our water facilities. As a result, our performance is affected by our access to capital, the balance of our borrowings and the total amount of capital we are able to raise through other financing methods, as well as any interest rate fluctuations. We actively seek to finance the development of our water projects and other capital expenditures through our internal resources as supplemented by bank borrowings and the issuance of equity and debt securities. Our borrowings and finance costs also impact our financial performance. As at 31 December 2012, 2013 and 2014, our unsettled bank borrowings were RMB473.9 million, RMB612.2 million and RMB733.9 million, respectively. The weighted average interest rate of our borrowings was 6.36%, 6.44% and 6.84% per annum, respectively, for the years ended 31 December 2012, 2013 and 2014. Our finance costs (before deducting the amounts capitalised on qualifying assets) were RMB29.9 million, RMB33.2 million and RMB55.4 million, respectively, and our capitalised interest amount was RMB9.1 million, RMB10.3 million and RMB21.1 million, respectively, for the years ended 31 December 2012, 2013 and 2014.

Any change in the interest rates of our borrowings or the amount of our borrowings will affect our interest payments and finance costs, which in turn could affect our cash flow, financial condition and results of operations. As our bank loans are principally denominated in Renminbi, the interest rates on our loans are primarily affected by the benchmark interest rates set by the PBOC. Furthermore, increases in the benchmark lending rates and bank reserve requirement ratios by the PBOC may negatively impact the amount of funds available to commercial banks in the PRC to lend to businesses, including our Company. We cannot assure you that the PBOC will not further raise the lending rates or reserve requirement ratios in the future, and any such increases may increase our finance costs and thereby materially and adversely affect our business, financial condition, results of operations and prospects. See “Risk Factors — Risks Relating to Our Business and Industry — We require substantial funding for our current and future projects; any failure to obtain adequate funding or refinance our existing debt at reasonable rates, or at all, could adversely affect our financial condition and results of operations and could prevent us from fulfilling our financial obligations and business objectives”.

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Cost of sales and government pricing policies regarding our services

We are exposed to fluctuations in the cost of sales of our business. The operation of our BOT/TOT, BOO/TOO and O&M projects requires us to incur electricity costs, labour costs and chemical costs. The construction of our BOT/BOO, BT and EPC projects requires us to incur contractor costs, procurement costs and equipment installation costs. Rising raw materials, equipment and labour costs and other costs could adversely affect our financial performance if we are unable to pass on such increases to our customers.

Our ability to pass on increases in the purchase price of raw materials and equipment, labour and other operation costs may be limited by certain government pricing policies in place. For our wastewater treatment projects, the fees we receive typically include a guaranteed tariff based on a guaranteed minimum volume, together with an additional tariff for wastewater treated in excess of the guaranteed minimum volume. Such tariff rates are pre-determined at the time we enter into a concession agreement with a local government. Accordingly, our revenue and profitability are affected by such tariff rates, which are determined by local governments based on certain factors, including, among others, the economic indicators for the regions in which our facilities are operating, the supply of and demand for wastewater treatment and water supply services and the cost of providing such services in the relevant areas. For our wastewater treatment and water supply projects, the concession agreements usually contain provisions specifying the circumstances in which the parties can adjust the unit prices, generally with reference to inflation and/or changes in benchmark interest rates on loans or utilities charges. The unit price adjustments are subject to the government's consent, which may be time consuming to obtain. Furthermore, the time lag between the increases in electricity prices, other raw material prices and labour costs and the unit price adjustments, if any, may impact our profit margins. Any adjustment agreed with the local government may or may not be timely or sufficient to offset such cost increases. If the government's consent cannot be obtained, our profit will be affected by such increases in costs without a corresponding increase in tariffs. See "Risk Factors — Risks Relating to Our Business and Industry — We may not be able to adjust the tariffs charged for our services in a timely manner to fully reflect any increase in the actual costs of our concession projects".

Taxation

Our results of operations and profitability are affected by changes in tax rates in the PRC. Our subsidiaries that are registered in the PRC and have operations in the PRC are subject to enterprise income tax on taxable income as reported in their PRC statutory accounts and as adjusted in accordance with the relevant PRC income tax laws.

Pursuant to the relevant PRC laws and regulations, in order to encourage the development of water conservation projects in the western regions of the PRC (including Yunnan and Xinjiang), companies carrying out wastewater treatment or water supply services in such regions are entitled to a preferential corporate income tax rate of 15%, provided that more than 70% of their revenue is derived from this principal business. This tax incentive will expire on 31 December 2020. As at 31 December 2014, 42 of our subsidiaries were entitled to such preferential tax treatment.

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In addition, pursuant to the relevant PRC laws and regulations, in order to encourage the development of wastewater treatment projects, companies carrying out wastewater treatment projects are entitled to an exemption from PRC income tax with respect to the operation revenue from such projects for the three years commencing from the first year after obtaining approval from the tax authority. Thereafter, such entities are entitled to a 50% tax reduction in PRC income tax for the following three years. As at 31 December 2014, 29 of our subsidiaries were entitled to such preferential tax treatment.

During the Track Record Period, a majority of our profit was contributed by (i) Dali Water, which was subject to corporate income tax at a rate of 15%, 25% and 15% in 2012, 2013 and 2014, respectively; (ii) Jinghong Water, which was subject to corporate income tax at a rate of 15% throughout the Track Record Period; and (iii) OriginWater Technology, which was subject to corporate income tax at a rate of 25% throughout the Track Record Period. For the years ended 31 December 2012, 2013 and 2014, our effective tax rates, calculated as income tax expense divided by profit before income tax, were 21.2%, 20.4% and 16.9%, respectively. Our effective tax rates may change from year to year due to the existence or expiration of any preferential tax treatment. Any material changes in the taxes applicable to our business in the PRC could affect our tax expenses and profitability. See “Risk Factors — Risks Relating to our Business and Industry — The preferential tax treatment we currently enjoy may be unfavourably changed or discontinued”.

Competition

We face competition from more than 1,200 participants in the water industry, including state-owned enterprises, collective companies, sino-foreign joint venture companies and privately-owned enterprise. We believe that factors critical to our competitiveness in this market include, among other things, our project execution capabilities, our technical capabilities, our relationships with local governments, the quality and price of our wastewater treatment and water supply services, our brand reputation and our marketing and customer service capabilities. Failure to effectively compete against other industry players could result in the loss of our market position and hamper our financial position and results of operations.

CRITICAL ACCOUNTING POLICIES, ESTIMATES AND JUDGMENTS

Critical accounting policies and estimates are those that require our management to exercise judgment and make estimates that would yield materially different results if our management were to apply different assumptions or make different estimates. Our financial information has been prepared in accordance with HKFRS.

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 estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances. The results of such estimates and assumptions form the basis for making judgements regarding the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from the

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estimates. During the Track Record Period, our estimates and associated assumptions did not materially deviate from the actual results. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised if the revisions affect only that period, or in the period of the revisions and future periods if the revisions affect both current and future periods. During the Track Record Period, we did not revise our estimates or underlying assumptions. Our Directors do not expect that our estimates or underlying assumptions will change in the foreseeable future.

Below is a summary of the accounting policies in accordance with HKFRS that we believe are both important to the presentation of our financial results and require us to make judgements, estimates and assumptions about the effect of matters that are inherently uncertain. We also have other policies that we consider to be significant accounting policies which are set out in detail in Notes 2 and 4 to the Accountant's Report.

Service concession arrangements

We have entered into a number of BOT/TOT agreements with local governments. The consideration paid by us for a BOT/TOT agreement is accounted for as an intangible asset (see Note 21 to the Accountant's Report), a financial asset (see Note 20 to the Accountant's Report) or a combination of both, as appropriate. An intangible asset (operating concession) is recognised to the extent that our right to charge users or local governments is contingent upon the usage or amount of services rendered. Conversely, a financial asset (receivable under service concession arrangement) is recognised to the extent that we have an unconditional right to receive tariff payments based on a guaranteed minimum volume stipulated under the concession agreements. A majority of our BOT/TOT agreements stipulate that we may charge tariffs based on guaranteed minimum volumes if the treatment volumes of our BOT/TOT projects are below such guaranteed minimum volumes. If no guaranteed minimum volume is stipulated, the consideration paid by us is accounted for as an intangible asset, while our operation revenue is accounted for as a trade receivable before settlement.

Receivables under service concession arrangements refer to outstanding receivables arising from our construction services, operation services and/or finance income after deducting the tariff payments accrued throughout a concession period. We make an estimate to determine the fair values of the receivables under service concession arrangements. The fair values are computed based on the discounted cash flow method using a discount rate (being the effective interest rate) as at the date of the initial recognition of the future operating cost. We make estimates regarding a number of factors, including, inter alia, the expected wastewater treatment and/or water supply volume of the relevant projects over their concession period and future guaranteed cash flows. We also choose a suitable internal rate of return in order to calculate the present value of such cash flows. Our effective interest rate ranged from 5.13% to 7.04% during the Track Record Period. The effective interest rate we utilised was determined based on the valuation conducted by JLL with reference to the benchmark interest rate set by the PBOC, the interest rates of provincial government bonds in the PRC and the effective interest rates of comparable companies listed in the PRC and Hong Kong. In determining our internal rate of return, JLL reviewed the background information of

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our business, our financial forecasts for the future cash flows of our BOT/TOT agreements and other operational and market information relating to our business. Based on such market research, JLL determined that the reasonable range for the effective interest rate for our BOT/TOT agreements should be from 5.13% to 7.04%, and our effective interest rate during the Track Record Period matched this range. We only recognise receivables under service concession arrangements when there are guaranteed minimum volumes.

Revenue from construction services under the terms of our concession agreements is estimated on a cost-plus basis with reference to a gross profit margin for the construction phase and is recognised based on the percentage of completion method. The gross profit margin for the construction phase of our wastewater treatment and water supply projects during the Track Record Period ranged from 2.93% to 3.93% and was determined based on the valuation conducted by JLL with reference to the prevailing gross profit margins for the construction phases of comparable companies. Because we sub-contract the construction of our BOT/TOT projects to independent contractors, JLL was of the view that our gross profit margin for the construction phase of our wastewater treatment and water supply projects should be lower than that of comparable companies. Our gross profit margin for the construction phase of our wastewater treatment and water supply projects was determined by subtracting the gross profit margins of comparable companies from the gross profit margin for the operation phase of our wastewater treatment and water supply projects.

When we receive a tariff payment based on a guaranteed minimum volume in connection with the operation of our wastewater treatment and water supply facilities during a concession period, we apportion such payment into (i) a repayment of receivables under service concession arrangements with the carrying amount of the receivables under service concession arrangements recorded on our consolidated balance sheets being reduced accordingly; (ii) finance income, which is recognised as revenue in profit or loss using the effective interest method based on the accrued amount of receivables under service concession arrangements; and (iii) operation revenue, which is recognised as revenue in profit or loss. Conversely, for a tariff payment received in connection with the operation of our wastewater treatment and water supply facilities during a concession period which is not based on a guaranteed minimum volume, no apportionment to the repayment of receivables under service concession arrangements and finance income is required. Such tariff payment is accounted for as operation revenue only. Accordingly, we recognise operation revenue when we receive a tariff payment in connection with the operation of our wastewater treatment and water supply facilities, whether or not such tariff payment is charged based on a guaranteed minimum volume. During the operation of our wastewater treatment and water supply facilities, the fair value of the operation service rendered is calculated based on costs plus a profit margin of 29%. The profit margin for the operation phase of our wastewater treatment and water supply projects is determined based on a valuation conducted by JLL with reference to the gross profit margin for the operation phase of our BOO/TOO projects and comparable companies listed in the PRC and Hong Kong.

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The accounting treatment for our BOO/TOO agreements is different in terms of the timing of the recognition of our revenue and costs. For our BOO projects, we do not recognise construction revenue as the facilities we construct are our property, plant and equipment and therefore no construction services are rendered. We only recognise operation revenue when we receive tariff payments during the operation phase of our BOO/TOO projects. As no financial asset is involved, no finance income is recognised. The construction costs for our BOO projects and the acquisition costs for our TOO projects are accounted for as property, plant and equipment in our consolidated balance sheet. Depreciation of property, plant and equipment is recognised as depreciation expenses in profit or loss over the estimated useful lives of such property, plant and equipment.

As at 31 December 2012, 2013 and 2014, the carrying amounts of the consideration for our construction services accounted for as intangible assets were RMB31.4 million, RMB40.7 million and RMB146.4 million, respectively, and our receivables under service concession arrangements were RMB651.1 million, RMB937.1 million and RMB1,454.3 million, respectively.

Impairment of trade and other receivables and receivables under service concession arrangements

Our trade and other receivables are subject to impairment based on our assessment of their recoverability. Provisions are applied where events or changes in circumstances indicate that the balances may not be collectible. Impairment assessment requires the use of our judgement and estimates based on a number of factors, which include, but are not limited to, the financial condition and credit history of our customers. Where the expectation is different from the original estimate, such difference will impact both the carrying value of our trade and other receivables and the impairment charge in the relevant period.

As at 31 December 2012, 2013 and 2014, our outstanding trade and other receivables before provision for impairment and excluding prepayments were RMB815.0 million, RMB542.4 million and RMB773.8 million, respectively. As at the same dates, our trade and other receivables impaired were RMB9.6 million, RMB12.5 million and RMB22.6 million, respectively, which constituted 1.2%, 2.3% and 2.9% of our outstanding receivables before provision for impairment and excluding prepayments, respectively. As at 31 December 2012, 2013 and 2014, our receivables under service concession arrangements were RMB651.1 million, RMB937.1 million and RMB1,454.3 million, respectively.

Income taxes and deferred taxation

We are subject to income taxes in the PRC. Significant judgement is required in determining our provision for income taxes. There are many transactions and calculations for which the ultimate determination is uncertain during the ordinary course of business. When the final tax outcome of these matters is different from the amounts that were initially recorded, such difference will impact our income tax and deferred tax provision in the relevant period.

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Deferred income tax assets relating to certain temporary differences and tax losses are recognised when we consider it probable that future taxable profit will be available against which the temporary differences or tax losses can be utilised. The outcome of their actual utilisation may be different from our judgements.

As at 31 December 2012, 2013 and 2014, our deferred income tax assets after offsetting of the balances within the same tax jurisdiction were RMB21.6 million, RMB18.5 million and RMB39.3 million, respectively.

Percentage of completion of construction and service contracts

For our BT and EPC projects, we recognise revenue for our construction work and service contracts according to the percentage of completion. We estimate the percentage of completion of our construction or service work based on the actual costs incurred over the total budgeted costs, and we also estimate the corresponding contract revenue. Our construction or service work usually lasts for a long period of time and usually falls into different accounting periods. We review and revise our estimates of both contract revenue and contract costs in the budget prepared for each construction and service contract as the construction progresses.

Useful lives and residual values of property, plant and equipment and intangible assets

We determine the useful lives, residual values and related depreciation/amortisation charges for our property, plant and equipment and intangible assets, and review the useful lives and residual values periodically to ensure that the methods and rates of depreciation are consistent with the expected pattern of realisation of the economic benefits from such property, plant and equipment and intangible assets. Our estimate is based on our historical experience regarding the actual residual values and useful lives of plant and equipment and intangible assets of a similar nature and function. Our estimate could change significantly as a result of technical advancement. If there are significant changes to our estimates regarding useful lives and residual values, the amount of our depreciation/amortisation expenses may change.

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RESULTS OF OPERATIONS

The following table sets out selected items of our consolidated statements of comprehensive income for the periods indicated:

	For the years ended 31 December		
	2012	2013	2014
	(RMB'000)	(RMB'000)	(RMB'000)
Revenue	398,521	688,734	1,100,761
Cost of sales	(258,844)	(427,995)	(767,124)
Gross profit	139,677	260,739	333,637
Other income	23,254	84,707	49,059
Other gains — net	71,927	8,942	3,273
Selling expenses	(8,338)	(11,215)	(13,456)
Administrative expenses	(40,687)	(75,448)	(125,816)
Operating profit	185,833	267,725	246,697
Finance costs - net	(21,361)	(23,288)	(31,482)
Share of (loss)/profit of investments accounted for using the equity method	(4,386)	7,796	10,942
Profit before income tax	160,086	252,233	226,157
Income tax expenses	(33,975)	(51,377)	(38,261)
Profit for the year	126,111	200,856	187,896
Other comprehensive income	—	—	(92)
Total comprehensive income for the year, net of tax	<u>126,111</u>	<u>200,856</u>	<u>187,804</u>
Attributable to:			
Owners of the Company	120,043	193,683	166,495
Non-controlling interests	<u>6,068</u>	<u>7,173</u>	<u>21,309</u>

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PRINCIPAL INCOME STATEMENT COMPONENTS

Revenue

During the Track Record Period, we derived our revenue primarily from our four operating segments:

1. **Wastewater treatment:** design, construction and operation of wastewater treatment facilities under BOT and BOO project models and operation of wastewater treatment facilities under TOT and TOO project models. For the years ended 31 December 2012, 2013 and 2014, we derived approximately 56.3%, 47.0% and 34.9% of our revenue, respectively, from our wastewater treatment segment.
2. **Water supply:** design, construction and operation of water supply facilities under BOO and BOT project models and operation of water supply facilities under TOT project models. For the years ended 31 December 2012, 2013 and 2014, we derived approximately 26.6%, 25.5% and 19.6% of our revenue, respectively, from our water supply segment.
3. **Construction and equipment sales:** design and construction of wastewater treatment and municipal waste disposal facilities under BT and EPC project models, sales of equipment for wastewater treatment, water supply and waste disposal and provision of relevant system integration services. For the years ended 31 December 2012, 2013 and 2014, we derived approximately 16.7%, 26.9% and 42.7% of our revenue, respectively, from our construction and equipment sales segment.
4. **Others:** provision of commissioned operation services for wastewater treatment, water supply and municipal waste disposal facilities under O&M project models. For the years ended 31 December 2012, 2013 and 2014, we derived approximately 0.4%, 0.6% and 2.8% of our revenue, respectively, from our others segment.

In 2014, our construction and equipment sales segment became our largest segment by revenue because the revenue derived under this segment increased substantially. For the reasons for such substantial increase in revenue, see “Financial Information — Period to Period Comparison of Results of Operations — Year ended 31 December 2013 compared to year ended 31 December 2014 — Revenue — Construction and equipment sales”.

The following table sets out a breakdown of our revenue, gross profit and gross profit margin by business segment during the Track Record Period:

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Notes:

- (1) For our BOO/TOO projects, we only recognise operation revenue. No construction revenue or finance income is recognised.
- (2) We charge wastewater treatment tariffs based on treatment volumes. If the treatment volume is below the guaranteed minimum volume as stipulated under the relevant concession agreement, we charge a tariff based on the guaranteed minimum volume instead. During the Track Record Period, the treatment volumes for most of our BOT/TOT wastewater treatment projects were below the guaranteed minimum volumes. Our operation revenue for our BOT/TOT wastewater treatment business increased during the Track Record Period primarily because (i) the number of projects in operation increased from 17 as at 31 December 2012 to 36 as at 31 December 2014; and (ii) a portion of the guaranteed minimum volumes increased during the Track Record Period pursuant to the terms of the relevant concession agreements.
- (3) Construction revenue is recognised during the construction phase of our BOT projects.
- (4) Under our BOT/TOT agreements, we record outstanding receivables throughout the concession period as receivables under service concession arrangements in our consolidated balance sheets when we have an unconditional right to receive tariff payments. Finance income is recognised as revenue in profit or loss using the effective interest method based on the accrued amount of receivables under service concession arrangements. The effective interest rates we adopted during the Track Record Period ranged from 5.13% to 7.04% and were determined based on the valuation conducted by JLL with reference to the benchmark interest rate set by the PBOC, the interest rates of provincial government bonds in the PRC and the effective interest rates of comparable companies listed in the PRC and Hong Kong.
- (5) Includes raw water and tap water supply.

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Wastewater treatment and water supply segments

Revenue under our wastewater treatment and water supply segments is derived from our concession projects. In accordance with HKFRS as detailed in Note 2.12 to the Accountants' Report, our revenue under BOT projects is apportioned into construction revenue, operation revenue and finance income, while our revenue under our TOT projects is apportioned into operation revenue and finance income only. Our revenue under BOO/TOO projects is apportioned into operation revenue only.

Construction revenue

During the construction phase of our BOT projects, we recognise construction revenue in our consolidated statements of comprehensive income based on the percentage of completion of the BOT projects. For our other concession projects, no construction revenue is recognised. We generally do not receive any payments or cash inflow during the construction phase of our concession projects, but we still incur significant costs, which could result in a mismatch between our cash inflows and our costs. See "Risk Factors — Risks Relating to our Business and Industry - We receive payment for our BOT projects during the operational phase only, and for our BT projects, we only receive repurchase fees upon repurchase of the constructed facilities. As a result, we may not always be able to match cash inflows from our operations with our costs incurred during the construction phase of our BOT and BT projects, which may result in a liquidity gap requiring external financing."

Operation revenue

During the operation phase of our concession projects, we recognise revenue from our BOO/TOO and BOT/TOT projects when we render our wastewater treatment services or deliver raw/tap water to the users. When tariff payments are received, the total amount received is accounted for as cash inflow. The cash receipt is allocated to settle receivables under service concession arrangements and trade receivables in our consolidated balance sheets. For our wastewater treatment and water supply segments, our operation revenue is presented as the sum of our BOO/TOO operation revenue and our operation revenue from our BOT/TOT projects.

Finance income

Under our BOT/TOT agreements, we record outstanding receivables throughout the concession period as receivables under service concession arrangements in our consolidated balance sheets when we have an unconditional right to receive tariff payments. Finance income is recognised as revenue in profit or loss using the effective interest method based on the accrued amount of receivables under service concession arrangements. Such accrued amount arises from our investments in our BOT/TOT projects with a guaranteed minimum volume made in the previous year. The effective interest rate we adopted during the Track

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Record Period ranged from 5.13% to 7.04% and was determined based on the valuation conducted by JLL with reference to the benchmark interest rate set by the PBOC, the interest rates of provincial government bonds in the PRC and the effective interest rates of comparable companies listed in the PRC and Hong Kong.

Construction and equipment sales

BT

Revenue from construction services for BT arrangements is recognised on a percentage of completion basis, which is measured by reference to the proportion of costs incurred to date to the estimated total cost. Finance income for our BT arrangements is recognised on an accrual basis using the effective interest method. The effective interest rate is calculated based on the estimated future cash receipts over the expected life of the financial asset recognised.

EPC and equipment sales

We conduct our EPC and equipment sales through OriginWater Technology and Guoqing Environmental. We recognise revenue from our EPC projects based on the percentage of completion. Such recognition commences when a legally binding contract is executed and when the total construction costs for the facilities under development can be reliably estimated. For our equipment sales, we recognise revenue when we sell our equipment or provide related system integration services.

Others

Our revenue recorded under our others segment comprises revenue from our O&M projects. For O&M projects, we recognise revenue when our services relating to the operation and maintenance of the relevant wastewater treatment, water supply or municipal waste disposal facilities are provided.

Cost of sales

Cost of sales primarily includes construction and equipment sales costs, depreciation and amortisation costs, electricity costs, employee benefit expenses and raw material costs, as applicable, for our BOT/TOT, BOO/TOO, BT, EPC and O&M projects. The following table sets out a breakdown of our cost of sales for the periods indicated:

	For the years ended 31 December		
	2012	2013	2014
	(RMB'000)	(RMB'000)	(RMB'000)
Construction and equipment sales costs	175,339	328,035	587,692
Depreciation and amortisation costs	26,943	30,558	52,038
Electricity costs	17,987	27,711	35,958
Employee benefit expenses	17,659	19,392	35,345
Raw materials costs	17,276	16,776	25,206
Others ⁽¹⁾	3,640	5,523	30,885
Total	258,844	427,995	767,124

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Note:

(1) Includes vehicle usage fees and office expenses.

For the years ended 31 December 2012, 2013 and 2014, our cost of sales represented 65.0%, 62.1% and 69.7% of our revenue, respectively.

Gross profit and gross profit margin

For the years ended 31 December 2012, 2013 and 2014, our gross profit was RMB139.7 million, RMB260.7 million and RMB333.6 million, respectively, and our gross profit margin was 35.0%, 37.9% and 30.3%, respectively.

During the Track Record Period, the gross profit margins for the construction phase of our wastewater treatment and water supply projects were generally lower than the gross profit margins for the operation phase of such projects. During the Track Record Period, the gross profit margins for the construction phase and operation phase of our wastewater treatment projects ranged from 3.4% to 23.7% and from 29.3% to 48.6%, respectively, while the gross profit margins for the construction phase and operation phase of our water supply projects ranged from 16.0% to 36.4% and from 39.1% to 52.4%, respectively. The gross profit margins for the construction phase and operation phase of our wastewater treatment and water supply projects were determined based on the valuation conducted by JLL. In determining the valuation of the gross profit margins for the construction phase and operation phase of our wastewater treatment and water supply projects, JLL took into account the gross profit margins for the construction and operation phases of comparable companies listed in the PRC and Hong Kong, as well as the gross profit margins for the operation phases of our BOO/TOO projects. The gross profit margins for the construction phase of the comparable companies which were taken into account were also generally lower than the gross profit margins for the operation phase of such companies.

In addition, the gross profit margins for the construction and operation phases of our wastewater treatment and water supply segments fluctuated from year to year during the Track Record Period. Such fluctuations resulted from changes in costs. For example, our gross profit margins for the construction phase of our wastewater treatment and water supply projects fluctuated because we occasionally sourced equipment internally, which resulted in a decrease in costs. For our gross profit margins for the operation phase of our wastewater treatment and water supply projects, the fluctuations during the Track Record Period primarily reflected fluctuations in our operation cost and maintenance expenses.

Other income

Other income primarily consists of (i) grants from local governments, (ii) interest income from our deposits with banks and our funding to related parties and (iii) rental income from the office premises of Dali Water.

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For the years ended 31 December 2012, 2013 and 2014, our other income was RMB23.3 million, RMB84.7 million and RMB49.1 million, respectively. The following table sets out a breakdown of our other income for the periods indicated:

	For the years ended 31 December		
	2012	2013	2014
	(RMB'000)	(RMB'000)	(RMB'000)
Government grants	6,489	67,886	34,880
Interest income			
- Bank deposits	3,178	2,690	8,370
- Other receivables from related parties	11,973	11,696	1,634
Rental income - net	691	1,967	3,480
Investment income from wealth management products	—	357	453
Miscellaneous income ⁽¹⁾	923	111	242
Total	23,254	84,707	49,059

Note:

- (1) Comprises handling fees received from an Independent Third Party in connection with the Jinghong Water tap water supply facility. When Jinghong Water billed users, the tap water supply tariffs charged by Jinghong Water and certain waste disposal fees charged by the Independent Third Party were billed together. The Independent Third Party paid Jinghong Water for the collection of such waste disposal fees.

During the Track Record Period, we received government grants in connection with our construction and operation of wastewater treatment projects, water supply projects and the development of our membrane manufacturing business.

It is a common practice for local governments in Yunnan to provide government grants to enterprises which engage in wastewater treatment and water supply. The main purpose of such government grants is to provide certain compensation to these enterprises. Such compensation covers the construction and operation costs of such companies or project companies in connection with the construction and operation of their wastewater treatment and water supply facilities, where applicable. The amount of government grants is determined by the provincial development and reform authorities or other provincial government authorities in Yunnan by reference to such factors as the designed capacity and investment amount of the relevant projects and plants, and is subject to the total budgeted amount set by the Yunnan provincial government. We apply to county or city-level development and reform authorities in Yunnan for such grants. The provincial development and reform authorities prepare the government grant plans based on the applications received and approved and such grants are paid by the county or city-level finance authorities in the following year.

Our government grants were received in the ordinary and usual course of business during the Track Record Period. Because wastewater treatment, water supply and municipal waste

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disposal are key parts of our core business, the construction and operation of wastewater treatment, water supply and municipal waste disposal facilities also form key components of our ordinary and usual course of business. The government grants we received during the Track Record Period were actively derived from our principal business activities and projects, and the amount of such grants was dependent upon the scale of the projects which were associated with such grants.

In addition, the government grants we received during the Track Record Period were not incidental to our core business, but rather formed part of it on a recurring basis. We received government grants throughout the Track Record Period at times set by the government authorities in Yunnan and not based on the arbitrary discretion of our Directors. Moreover, HKFRS stipulates that the government grants we received during the Track Record Period be recorded as income generated from our operations, and our PRC legal adviser has advised us that such government grants are lawful and in accordance with the regulatory policies and rules issued by the provincial government authorities of Yunnan. See “Regulatory Environment — Taxation — Fiscal Subsidy” for further details. We expect that any government grants received in connection with any particular project will continue until the completion of construction of such project. Furthermore, there are no conditions attached to the government grants we received, and in certain circumstances, the relevant local governments have even agreed in the concession agreements to which they are a party to assist us with our application for government grants.

Other gains — net

Other gains — net primarily consists of gains from the disposal of Jinghong Haotai and gains from the disposal of a joint venture. For the years ended 31 December 2012, 2013 and 2014, our other gains — net were RMB71.9 million, RMB8.9 million and RMB3.3 million, respectively. The following table sets out a breakdown of our other gains — net for the periods indicated:

	For the years ended 31 December		
	2012	2013	2014
	(RMB'000)	(RMB'000)	(RMB'000)
Gain from disposal of Jinghong Haotai	71,898	—	—
Gain from disposal of a joint venture	—	8,642	—
Negative goodwill arising from acquisition of subsidiaries	—	304	—
Gain/(loss) from disposal of property, plant and equipment and land use rights	29	(4)	3,273
Total	<u>71,927</u>	<u>8,942</u>	<u>3,273</u>

Our gain from the disposal of Jinghong Haotai was derived from the disposal of our equity interest in our previous associate, Jinghong Haotai. In 2012, we disposed of our 20% equity interest in Jinghong Haotai through a public auction for a consideration of RMB93.1 million and

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recognised a gain from the disposal of Jinghong Haotai of RMB71.9 million. Such amount comprised the consideration we received after deducting our costs of investment. Jinghong Haotai engaged in property development, and we disposed of our entire equity interest in Jinghong Haotai in order to focus on our wastewater treatment and water supply businesses.

Our gain from the disposal of a joint venture of RMB8.6 million in 2013 was derived from the disposal of Kunming Ruiyuan, which engaged in the tap water supply business, for a consideration of RMB59.2 million in 2013. The RMB8.6 million gain recognised in 2013 comprised the consideration received for the disposal, less our costs of investment. We disposed of our equity interests in Kunming Ruiyuan primarily because Kunming Ruiyuan suffered a loss in 2011 and 2012.

Our gain from disposal of property, plant and equipment and land use rights of RMB4.8 million in 2014 was derived from our asset disposal of Dali Water Supply Plant IV in 2014. We disposed of such plant primarily because the plant was not in operation and had to be relocated in accordance with government urban planning.

Selling expenses

Selling expenses primarily consist of employee benefit expenses, ad hoc maintenance expenses, handling fees (wastewater service fee collection), depreciation costs and others.

For the years ended 31 December 2012 and 2013 and 2014, our selling expenses were RMB8.3 million, RMB11.2 million and RMB13.5 million, respectively. For the years ended 31 December 2012, 2013 and 2014, our selling expenses represented 2.1%, 1.6% and 1.2% of our revenue, respectively. The following table sets out a breakdown of our selling expenses for the periods indicated:

	For the years ended 31 December		
	2012	2013	2014
	(RMB'000)	(RMB'000)	(RMB'000)
Employee benefit expenses	5,375	6,404	7,371
Ad hoc maintenance expenses ⁽¹⁾	1,595	2,520	3,058
Handling fees (wastewater service fee collection) ⁽²⁾	443	823	1,273
Depreciation costs	521	720	636
Travelling expenses	47	175	467
Entertainment expenses	53	122	255
Others	304	451	396
Total	8,338	11,215	13,456

Notes:

- (1) We incurred ad hoc maintenance expenses for the repair of the pipeline network utilised in connection with our water supply segment.

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- (2) Our wastewater treatment tariffs for a portion of our wastewater treatment projects were collected by local water supply companies, which are Independent Third Parties. The local water supply companies charged the users water supply tariffs and our wastewater treatment tariffs together. The local water supply companies charged us a handling fee in respect of the wastewater treatment tariffs collected for us.

Administrative expenses

Our administrative expenses primarily consist of employee benefit expenses, taxes and levies, depreciation and amortisation costs, office expenses, rental expenses, travelling expenses, entertainment expenses, maintenance costs, audit and consultancy fees, research and development expenditures and allowance for doubtful debts. Taxes and levies comprise real estate taxes, land usage taxes and stamp duty.

For the years ended 31 December 2012, 2013 and 2014, our administrative expenses were RMB40.7 million, RMB75.4 million and RMB125.8 million, respectively. For the years ended 31 December 2012, 2013 and 2014, our administrative expenses represented approximately 10.2%, 11.0% and 11.4% of our revenue, respectively. The following table sets out a breakdown of our administrative expenses for the periods indicated:

	For the years ended 31 December		
	2012	2013	2014
	(RMB'000)	(RMB'000)	(RMB'000)
Employee benefit expenses	15,785	35,474	58,884
Taxes and levies	3,218	4,174	6,820
Depreciation and amortisation costs	2,615	3,761	4,943
Office expenses	4,076	7,001	10,206
Rental expenses	185	845	4,181
Travelling expenses	751	2,342	4,161
Entertainment expenses	2,306	4,351	4,399
Maintenance costs	1,037	1,648	2,151
Audit and consultancy fees	1,857	3,876	6,098
Research and development expenditures	—	4,697	6,051
Allowance for doubtful debts	4,368	2,838	8,345
Donations expenses	1,586	1,448	1,255
Others	2,903	2,993	8,322
Total	40,687	75,448	125,816

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Finance costs — net

Our finance costs primarily include interest expenses. Our finance income primarily includes foreign exchange gains on financing activities. Our finance costs — net were RMB21.4 million, RMB23.3 million and RMB31.5 million for the years ended 31 December 2012, 2013 and 2014, respectively.

The following table sets out our finance costs — net for the periods indicated:

	For the years ended 31 December		
	2012	2013	2014
	(RMB'000)	(RMB'000)	(RMB'000)
Borrowing costs:			
Interest expenses ⁽¹⁾	29,864	33,174	55,354
Less: amounts capitalised on qualifying assets ⁽²⁾	(9,125)	(10,337)	(21,090)
	20,739	22,837	34,264
Provisions: unwinding of provision	30	65	769
Foreign exchange (gains)/losses on financing activities	592	386	(3,551)
	21,361	23,288	31,482

Notes:

- (1) Comprises interest expenses arising from our bank and other borrowings. For the years ended 31 December 2012, 2013 and 2014, our interest expenses arising from our bank borrowings and corporate bonds were RMB17.4 million, RMB26.1 million and RMB52.1 million, respectively and our interest expenses arising from our other borrowings which were not in compliance with the Lending General Provisions were RMB12.5 million, RMB7.1 million and RMB4.0 million, respectively. Interest expenses arising from our other borrowings consisted of (i) interest expenses incurred in connection with funding from related parties of RMB11.2 million, RMB6.0 million and RMB1.2 million for the years ended 31 December 2012, 2013 and 2014, respectively; and (ii) interest expenses incurred in connection with funding from third parties of RMB1.3 million, RMB1.1 million and RMB2.1 million for the years ended 31 December 2012, 2013 and 2014, respectively. See “Business — Non-Compliances”.
- (2) Comprises interest expenses that were capitalised into the cost of property, plant and equipment. Such assets primarily include the property, plant and equipment for our BOO projects.

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Income tax expense

Our income tax expense represents PRC corporate income tax expenses and deferred income tax. As at the Latest Practicable Date, 42 of our subsidiaries were subject to a preferential corporate income tax rate of 15% and 29 of our subsidiaries were entitled to an exemption from PRC income tax for the three years commencing from the first year after obtaining approval from the tax authority. Thereafter, these entities are entitled to a 50% tax reduction in PRC income tax for the following three years. As at the Latest Practicable Date, our subsidiary, Beijing Clean, which was classified as a high-tech enterprise, enjoyed a preferential tax rate of 15% and our remaining subsidiaries were subject to corporate income tax at the statutory rate of 25%.

No provision for Hong Kong profits tax was made as we did not have assessable profit in Hong Kong during the Track Record Period. Our income tax expenses for the years ended 31 December 2012, 2013 and 2014 were RMB34.0 million, RMB51.4 million and RMB38.3 million, respectively. Our effective income tax rates for the years ended 31 December 2012, 2013 and 2014 were 21.2%, 20.4% and 16.9%, respectively. Our effective tax rates were higher than the preferential tax rate of 15% during the Track Record Period, primarily because a portion of our profit was derived from entities which were subject to corporate income tax at the statutory rate of 25%. As at the Latest Practicable Date, we had paid, or made provisions to pay, all relevant taxes, and we did not have any material disputes with the relevant tax authority.

PERIOD TO PERIOD COMPARISON OF RESULTS OF OPERATIONS

Year ended 31 December 2013 compared to year ended 31 December 2014

Revenue

Our revenue increased from RMB688.7 million for the year ended 31 December 2013 to RMB1,100.8 million for the year ended 31 December 2014. The increase was primarily a result of an increase in revenue derived from our construction and equipment sales segment. Such increase was primarily due to (i) the consolidation of the results of operations of Guoqing Environmental beginning in September 2013 and Beijing Clean beginning in January 2014 and (ii) the expansion of our BT business in 2014 as compared to 2013. Revenue derived from our wastewater treatment and water supply segments also increased, primarily due to an increase in the number of wastewater treatment and water supply projects which commenced operation in 2014 as compared to 2013.

Wastewater treatment

Construction revenue: Construction revenue under our BOT projects decreased from RMB200.4 million in 2013 to RMB184.5 million in 2014. The decrease in our construction revenue primarily resulted from a decrease of one BOT project under construction in 2014 as compared to 2013.

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Operation revenue: Operation revenue under our wastewater treatment segment increased from RMB83.0 million in 2013 to RMB147.6 million in 2014. The growth in our operation revenue primarily resulted from an increase of nine BOT/TOT projects which commenced operation in 2014 as compared to 2013. Such increase was primarily due to our acquisition of Wuxi Zhongfa Water, the Gejiu Wastewater Treatment Plant and the Mengzi Wastewater Treatment Plant in May 2014.

Finance Income: Finance income under our BOT/TOT projects increased from RMB40.5 million in 2013 to RMB51.5 million in 2014. The increase was primarily due to an increase in the amount of outstanding receivables under service concession arrangements accrued for 2014 as compared to 2013. Such increase primarily reflected our increased investment in our BOT/TOT projects with guaranteed minimum volumes in 2013 as compared to 2012.

Water supply

Construction revenue: Construction revenue under our BOT projects remained relatively stable at RMB72.7 million and RMB69.9 million in 2013 and 2014, respectively. Construction revenue remained relatively stable in both years primarily because we continued to construct the Emin (Bingdi, Liaoying) Industrial Water Supply Works (Phase I) Project in both years and its construction progress remained relatively stable during the period.

Operation revenue: Operation revenue under our water supply segment increased from RMB103.0 million in 2013 to RMB142.4 million in 2014. The growth in our operation revenue primarily resulted from an increase of one BOO project, namely Liuku Water Supply Plant I, the acquisition of which was completed in 2014.

Finance income: Finance income under our BOT/TOT water supply projects increased from nil in 2013 to RMB3.7 million in 2014. The increase was primarily because there was an accrual of outstanding receivables under service concession arrangements for 2014 while there was no such accrual for 2013. Such differences in the accrual of outstanding receivables under service concession arrangements primarily reflect our investments in the Emin (Bingdi, Liaoyang) Industrial Water Supply Works (Phase I) Project which had agreed upon guaranteed minimum volumes in 2013, while no such investments were made in 2012.

Construction and equipment sales

BT: Revenue from our BT business increased from nil in 2013 to RMB206.1 million in 2014. The increase was primarily due to the commencement of the construction of two BT projects, namely Dali Wastewater Collection and Treatment Systems for 100 Villages (72 plants) and Mangyong River Project, in late 2014.

EPC & equipment sales: Revenue from our EPC & equipment sales businesses increased from RMB185.3 million in 2013 to RMB263.5 million in 2014. The increase was primarily due to (i) the consolidation of the results of operations of Guoqing Environmental and Beijing Clean, both of which also engage in equipment sales, into our financial statements beginning in September 2013 and January 2014, respectively; and (ii) the expansion of our existing EPC

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& equipment sales business operated by OriginWater Technology. Guoqing Environmental's revenue derived from its EPC & equipment sales business was RMB49.8 million in 2014 and Beijing Clean's revenue derived from its EPC & equipment sales business was RMB18.5 million in 2014.

Others

Our revenue from our others segment increased from RMB3.9 million in 2013 to RMB31.0 million in 2014. The increase was primarily due to the consolidation of the results of operations of Guoqing Environmental and Beijing Clean (through its previous subsidiary, Yuxi Clean), both of which also engage in O&M projects, into our financial statements beginning in September 2013 and January 2014, respectively. Guoqing Environmental's revenue derived from its O&M projects was RMB19.1 million in 2014, while Beijing Clean's revenue derived from its O&M projects through its previous subsidiary, Yuxi Clean, was RMB5.1 million in 2014.

Cost of sales

Our cost of sales increased from RMB428.0 million in 2013 to RMB767.1 million in 2014. The increase was primarily due to an increase in cost of sales in connection with our wastewater treatment, water supply and construction and equipment sales segments.

Wastewater treatment

Cost of sales for our wastewater treatment segment increased from RMB200.1 million in 2013 to RMB255.2 million in 2014. The increase was primarily due to (i) an increase in construction costs arising from the construction of the Xinjiang Wuwu Industrial Zone Wastewater Treatment Plant, Datunhai Wastewater Treatment Plant, Jinan Lingang Economic Development Zone Wastewater Treatment Plant Phase I and Jinan New Material Industrial Park Wastewater Treatment Plant; and (ii) an increase in operation costs resulting from an increase of nine wastewater treatment projects which commenced operation in 2014 as compared to 2013.

Water supply

Cost of sales for our water supply segment increased from RMB105.4 million in 2013 to RMB140.4 million in 2014. The increase was primarily due to (i) an increase in construction costs of RMB8.1 million (comprising equipment and sub-contracting expenses) as a result of the construction of the Emin (Bingdi, Liaoyang) Industrial Water Supply Works (Phase I) Project, a raw water supply project in Xinjiang; and (ii) an increase in operation costs as a result of one additional water supply project, namely Jinan New Material Industrial Park Tap Water Supply Plant, commencing operation and the completion of the acquisition of Liuku Water Supply Plant I, which was in operation, in 2014.

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Construction and equipment sales

Cost of sales for our construction and equipment sales segment increased from RMB119.2 million in 2013 to RMB350.0 million in 2014. The increase was primarily due to (i) an increase in costs in connection with our EPC & equipment sales resulting from the consolidation of the results of operations of Guoqing Environmental and Beijing Clean, both of which also engage in equipment sales, into our financial statements beginning in September 2013 and January 2014, respectively; (ii) an increase in costs associated with the expansion of the equipment sales business of OriginWater Technology; and (iii) an increase in costs associated with the expansion of our BT business. The cost of sales for Guoqing Environmental's and Beijing Clean's construction and equipment sales were RMB34.8 million and RMB9.2 million, respectively, in 2014. The BT business we engaged in in 2014 includes the Dali Wastewater Collection and Treatment Systems for 100 Villages (72 plants) project and the Mangyong River Project.

Others

Cost of sales for our others segment increased from RMB3.2 million in 2013 to RMB21.4 million in 2014. The increase was primarily due to the consolidation of the results of operations of Guoqing Environmental and Beijing Clean, both of which also engage in O&M projects, into our financial statements beginning in September 2013 and January 2014, respectively. The cost of sales for Guoqing Environmental's O&M projects was RMB14.7 million in 2014. The cost of sales for Beijing Clean's O&M projects (through its previous subsidiary, Yuxi Clean) was RMB2.6 million in 2014.

Gross profit and gross profit margin

As a result of our relatively higher increase in revenue compared to our increase in cost of sales, our gross profit increased from RMB260.7 million in 2013 to RMB333.6 million in 2014. Our gross profit margin decreased by 7.6% from 37.9% in 2013 to 30.3% in 2014, primarily reflecting a substantial decrease in the profit margin for the construction phase of our wastewater treatment and water supply segments and the profit margin for our construction and equipment sales segment.

Wastewater treatment

Gross profit for our wastewater treatment segment increased from RMB123.7 million in 2013 to RMB128.4 million in 2014, primarily because our revenue increased at a faster rate than our cost of sales. During the same period, our gross profit margin for our wastewater treatment segment decreased from 38.2% to 33.5%, primarily reflecting a significant decrease in the gross profit margin for the construction phase of our wastewater treatment projects from 23.7% in 2013 to 3.4% in 2014. The gross profit margin for the construction phase of our wastewater treatment projects decreased substantially because we did not provide equipment and system integration services to our own wastewater treatment projects in 2014. When we are not required to provide equipment and system integration services to our own concession projects, the gross profit margin for the construction phase of our wastewater treatment

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projects ranges from 2.93% to 3.93% as determined based on the valuation conducted by JLL with reference to the prevailing gross profit margins for the construction phases of comparable companies. See “Financial Information — Critical Accounting Policies, Estimates and Judgments — Service concession arrangements”.

Water supply

Gross profit for our water supply segment increased from RMB70.2 million in 2013 to RMB75.6 million in 2014, primarily because our revenue increased at a faster rate than our cost of sales. During the same period, our gross profit margin for our water supply segment decreased from 40.0% to 35.0%, primarily reflecting (i) a significant decrease in the gross profit margin for the construction phase of our water supply projects from 30.3% in 2013 to 16.0% in 2014 and (ii) the decrease in the gross profit margin for the operation phase of our BOO/TOO projects from 46.7% in 2013 to 42.6% in 2014. The gross profit margin for the construction phase of our water supply projects decreased substantially because we provided less equipment and system integration services to our own water supply projects in 2014. When we are not required to provide equipment and system integration services to our own concession projects, the gross profit margin for the construction phase of our water supply projects ranges from 2.93% to 3.93% as determined based on the valuation conducted by JLL with reference to the prevailing gross profit margins for the construction phases of comparable companies. See “Financial Information — Critical Accounting Policies, Estimates and Judgments — Service concession arrangements”. The gross profit margin for the operation phase of our BOO/TOO projects decreased because raw material and labour costs continued to increase in 2014 as compared to 2013.

Construction and equipment sales

Gross profit for our construction and equipment sales segment increased from RMB66.2 million in 2013 to RMB120.1 million in 2014 because our revenue increased at a faster rate than our cost of sales. During the same period, our gross profit margin decreased from 35.7% to 25.5% primarily because we engaged in BT business in 2014 but not in 2013. The gross profit margin for our BT business was lower during the Track Record Period primarily because we outsourced our construction work.

Others

Gross profit for our others segment increased from RMB0.6 million in 2013 to RMB9.6 million in 2014, primarily because our revenue increased substantially due to the consolidation of the results of operations of Guoqing Environmental and Beijing Clean into our financial statements beginning in September 2013 and January 2014, respectively. During the same period, our gross profit margin increased from 16.3% to 31.0%, also because of such consolidation.

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Other income

Our other income decreased from RMB84.7 million in 2013 to RMB49.1 million in 2014. The decrease was primarily a result of (i) a RMB33.0 million decrease in government grants relating to the operation of our BOO wastewater treatment and water supply projects and (ii) a RMB10.1 million decrease in interest income from other receivables from related parties reflecting a decrease in funds granted to related parties. Such amounts were partially offset by a RMB5.7 million increase in interest income from bank deposits and a RMB1.5 million increase in rental income, as Dali Water leased an additional office space to an Independent Third Party.

Other gains — net

Our other gains — net decreased from RMB8.9 million in 2013 to RMB3.3 million in 2014. The decrease was primarily because we recorded a disposal gain of RMB8.6 million in 2013 as a result of our disposal of Kunming Ruiyuan in the same year and no such gain was recorded in 2014.

Selling expenses

Our selling expenses increased from RMB11.2 million in 2013 to RMB13.5 million in 2014. The increase was primarily due to (i) a RMB1.0 million increase in employee benefit expenses for our sales staff, (ii) a RMB0.5 million increase in handling fees for collection of wastewater treatment fees due to an increase in our wastewater treatment tariffs in 2014 as compared to 2013, and (iii) a RMB0.5 million increase in ad hoc maintenance expenses due to an increase in the number of water supply project in operation in 2014 as compared to 2013.

Administrative expenses

Administrative expenses increased from RMB75.4 million in 2013 to RMB125.8 million in 2014. The increase was primarily a result of (i) a RMB23.4 million increase in employee benefit expenses; (ii) a RMB3.2 million increase in office expenses and (iii) a RMB3.3 million increase in rental expenses. Such increases were primarily due to the expansion of our scale of operations upon our acquisition of several companies after 2013. Such companies included Beijing Clean, which we acquired in January 2014, Wuxi Zhongfa Water, which we acquired in May 2014 and Liuku Water, which we acquired in June 2014.

Finance costs — net

Our finance costs — net increased from RMB23.3 million in 2013 to RMB31.5 million in 2014. The increase was primarily a result of a RMB22.2 million increase in interest expenses due to the increase in our outstanding borrowings. Our outstanding borrowings increased primarily as a result of our increased funding requirements for our acquisition or establishment of several companies, including Beijing Clean, Shandong Environmental and Wuxi Zhongfa Water, which we acquired or established in January 2014, January 2014 and May 2014, respectively. The increase in our outstanding borrowings was partially offset by a RMB10.8

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million increase in amounts capitalised on qualifying assets in 2014, which primarily reflected an increase in capital expenditures during the construction of a portion of Dali Water's and Jinghong Water's wastewater treatment and water supply BOO projects and the Membrane Production Plant.

Income tax expense

Our income tax expense decreased from RMB51.4 million in 2013 to RMB38.3 million in 2014. Our effective income tax rate decreased from 20.4% in 2013 to 16.9% in 2014. Our income tax expense and effective tax rate decreased primarily because of an increase of seven subsidiaries which were subject to preferential tax rates in 2014 as compared to 2013.

Profit for the year and net profit margin

As a result of the foregoing, our profit for the year decreased from RMB200.9 million in 2013 to RMB187.8 million in 2014 and our net profit margin decreased from 29.2% in 2013 to 17.1% in 2014.

Year ended 31 December 2012 compared with year ended 31 December 2013

Revenue

Our revenue increased from RMB398.5 million in 2012 to RMB688.7 million in 2013. The increase was primarily a result of (i) an increase in the number of our wastewater treatment projects in operation from 21 projects in 2012 to 31 projects in 2013; (ii) increases in the number of water supply projects under construction from only two projects in 2012 to five projects in 2013 and in the number of water supply projects in operation from nine projects in 2012 to 10 projects in 2013; and (iii) a substantial increase in revenue from our construction and equipment sales segment in 2013.

Wastewater treatment

Construction revenue: Construction revenue under our wastewater treatment segment increased from RMB149.3 million in 2012 to RMB200.4 million in 2013. Construction revenue increased primarily because we invested more in constructing our wastewater treatment projects in 2013 as compared to 2012. In 2013, we commenced the construction of a BOT wastewater treatment project for an industrial park in Xinjiang, which contributed construction revenue of RMB63.7 million. The total investment for the construction of this project is expected to be RMB150.0 million.

Operation revenue: Operation revenue under our wastewater treatment segment increased from RMB47.1 million in 2012 to RMB83.0 million in 2013. The growth in our operation revenue primarily resulted from (i) an increase in the number of our BOT/TOT

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projects in operation from 17 projects in 2012 to 27 projects in 2013, and (ii) an increase in revenue from our BOO projects due to an increase in the wastewater treatment tariff per tonne charged by Dali Water in 2013. The wastewater treatment tariff charged by Dali Water increased from RMB0.72 per tonne in 2012 to RMB0.8 per tonne in 2013.

Finance income: Finance income under our wastewater treatment segment increased from RMB28.0 million in 2012 to RMB40.5 million in 2013. The growth in our finance income primarily resulted from an increase in the amount of outstanding receivables under service concession arrangements accrued for 2013 as compared to 2012. Such increase primarily reflects our increased investment in our BOT/TOT projects with a guaranteed minimum volume in 2012 as compared to 2011.

Water supply

Construction revenue: Construction revenue under our water supply segment increased from RMB4.0 million in 2012 to RMB72.7 million in 2013. Construction revenue increased primarily because we began construction of a BOT raw water supply project in 2013 and did not have any BOT projects under construction in 2012. The total investment for the construction of this project is expected to be RMB400.0 million. Although we did not have any BOT projects under construction in 2012, we recorded construction revenue of RMB4.0 million during that year due to the construction of the pipeline network and water meters for Dali Water.

Operation revenue: Operation revenue under our water supply segment remained relatively stable at RMB102.1 million in 2012 and RMB103.0 million in 2013.

Finance income: We did not record finance income in 2012 or 2013 because there was no accrual of outstanding receivables under service concession arrangements for 2012 or 2013 as we did not make any investments in our BOT/TOT projects with guaranteed minimum volumes in 2011 or 2012.

Construction and equipment sales

BT: We did not record revenue for our BT projects in 2012 or 2013 as we did not engage in any BT projects in 2012 or 2013.

EPC & equipment sales: Revenue from our EPC & equipment sales increased from RMB66.6 million in 2012 to RMB185.3 million in 2013, primarily because there were only two months of the results of operations of OriginWater Technology, which also engages in the EPC & equipment sales business, consolidated into our financial statements in 2012, while the full-year results of operations of OriginWater Technology were consolidated into our financial statements in 2013. The increase in revenue also reflected an increase in OriginWater Technology's revenue in 2013 as compared to 2012 as a result of its business expansion.

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Others

Revenue from our others segment increased from RMB1.4 million in 2012 to RMB3.9 million in 2013, primarily due to the addition of six O&M projects in 2013 as a result of our consolidation of the results of operations of Guoqing Environmental, which also engages in O&M projects, beginning in September 2013.

Cost of sales

Our cost of sales increased from RMB258.8 million in 2012 to RMB428.0 million in 2013. The increase was primarily a result of an increase in costs in connection with our wastewater treatment and water supply segments.

Wastewater treatment

Cost of sales for our wastewater treatment segment increased from RMB155.2 million in 2012 to RMB200.1 million in 2013. Such increase primarily reflected (i) an increase in construction costs, reflecting an increase in our investments in construction due to the larger scale of the one wastewater treatment facility we constructed in Xinjiang in 2013; and (ii) an increase in operation costs, reflecting an increase in the number of our projects in operation in 2013 as compared to 2012.

Water supply

Cost of sales for our water supply segment increased from RMB53.2 million in 2012 to RMB105.4 million in 2013, primarily reflecting a RMB48.1 million increase in construction costs, as we began to construct a BOT raw water supply project in 2013. The total investment for the construction of such project is expected to be RMB400.0 million. We did not have any BOT projects under construction in 2012.

Construction and equipment sales

Cost of sales for our construction and equipment sales segment increased from RMB49.9 million in 2012 to RMB119.2 million in 2013, primarily due to an increase in costs in connection with our EPC & equipment sales. Such costs increased primarily because we consolidated the results of operations of OriginWater Technology into our financial statements beginning in October 2012 and only two months of such results of operations were consolidated into our financial statements in that year, while the full-year results of operations were consolidated in 2013. The cost of sales of OriginWater Technology consolidated into our financial statements in 2012 was RMB93.2 million, while the cost of sales of OriginWater Technology consolidated into our financial statements in 2013 was RMB157.7 million. In addition, the increase in cost of sales for our construction and equipment sales segment was also caused by an increase in the cost of sales of OriginWater Technology in 2013 as compared to 2012 as a result of its business expansion. The cost of sales of OriginWater Technology mainly comprised expenses

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incurred for the purchase of equipment used in wastewater treatment facilities and accessories used in equipment installation. A portion of the cost of sales of OriginWater Technology was incurred from its sales of equipment to our own wastewater treatment and water supply facilities. Such cost was eliminated upon consolidation into our financial statements.

Others

Our cost of sales for our others segment increased from RMB0.4 million in 2012 to RMB3.2 million in 2013. The increase was primarily a result of an increase of the number of our O&M projects in 2013 as compared to 2012.

Gross profit and gross profit margin

As a result of a relatively higher increase in revenue compared to our increase in cost of sales, our gross profit increased from RMB139.7 million in 2012 to RMB260.7 million in 2013 and our gross profit margin increased from 35.0% in 2012 to 37.9% in 2013.

Wastewater treatment

Gross profit for our wastewater treatment segment increased from RMB69.1 million in 2012 to RMB123.7 million in 2013 primarily because our revenue increased at a faster rate than our cost of sales. Our gross profit margin for our wastewater treatment segment increased from 30.8% to 38.2%, primarily due to an increase in revenue resulting from an increase in the wastewater treatment tariff charged by Dali Water from RMB0.72 per tonne in 2012 to RMB0.8 per tonne in 2013.

Water supply

Gross profit for our water supply segment increased from RMB52.9 million in 2012 to RMB70.2 million in 2013, primarily because our revenue increased at a faster rate than our cost of sales. During the same period, our gross profit margin for our water supply segment decreased from 49.8% to 40.0%, primarily because we started to construct a BOT project in 2013 but did not have any BOT projects under construction in 2012. During the Track Record Period, the gross profit margin for the construction phase of our water supply projects was generally lower than the gross profit margin for the operation phase of such projects. See “Financial Information — Principal Income Statement Components — Gross Profit and Gross Profit Margin”.

Construction and equipment sales

Gross profit for our construction and equipment sales segment increased from RMB16.7 million in 2012 to RMB66.2 million in 2013, primarily because our revenue increased at a faster rate than our cost of sales. During the same period, our gross profit margin increased from

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25.1% to 35.7%, primarily because of an expansion in the scale of business of OriginWater Technology, which resulted in an increase in its bargaining power. The results of operations of OriginWater Technology have been consolidated into our financial statements since October 2012.

Others

Gross profit for our others segment decreased from RMB1.0 million in 2012 to RMB0.6 million in 2013 and the gross profit margin for our others segment decreased from 69.0% in 2012 to 16.3% in 2013. The decreases in gross profit and gross profit margin were immaterial as both the revenue and gross profit derived from this segment were negligible in 2012 and 2013.

Other income

Our other income increased from RMB23.3 million in 2012 to RMB84.7 million in 2013. The increase was primarily due to a RMB61.4 million increase in government grants in 2013 as compared to 2012. Such government grants were given to us in 2013 to compensate us for the increase in (i) our construction costs arising from our increased investment in our wastewater treatment and water supply facilities, and (ii) our operation costs arising from the increase in the number of our wastewater treatment and water supply facilities in operation in 2013 as compared to 2012.

Other gains — net

Our other gains — net decreased from RMB71.9 million in 2012 to RMB8.9 million in 2013. The decrease was primarily because we recorded a disposal gain of RMB71.9 million in 2012 as a result of our disposal of our 20% equity interests in Jinghong Haotai and recorded no such disposal gain in 2013.

Selling expenses

Our selling expenses increased from RMB8.3 million in 2012 to RMB11.2 million in 2013. The increase was primarily due to (i) a RMB1.0 million increase in employee benefit expenses, reflecting an increase in the number of our sales staff; and (ii) a RMB0.9 million increase in ad hoc maintenance expenses for the repair of the pipeline network utilised in connection with our water supply segment. Such increases primarily reflected our overall business expansion in 2013 as compared to 2012, which was broadly in line with our growth in revenue in 2013 as compared to 2012.

Administrative expenses

Administrative expenses increased from RMB40.7 million in 2012 to RMB75.4 million in 2013. The increase was primarily a result of (i) a RMB19.7 million increase in employee benefit expenses caused by an increase in our administrative staff and (ii) a RMB4.7 million increase in research and development expenses for our membrane manufacturing business.

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Finance costs — net

Our finance costs — net increased from RMB21.4 million in 2012 to RMB23.3 million in 2013. The increase was primarily a result of an increase in interest expenses, which reflected an increase in the amount of our bank borrowings used to finance our concession projects and replenish our working capital.

Income tax expense

Our income tax expense increased from RMB34.0 million in 2012 to RMB51.4 million in 2013. The increase was primarily a result of an increase in our profit before tax. Our effective income tax rate decreased from 21.2% in 2012 to 20.4% in 2013, primarily because a portion of our projects commenced operation and were qualified to apply for tax benefits in 2013.

Profit for the year and net profit margin

As a result of the foregoing, our profit for the year increased from RMB126.1 million in 2012 to RMB200.9 million in 2013, and our net profit margin decreased from 31.6% in 2012 to 29.2% in 2013.

LIQUIDITY AND CAPITAL RESOURCES

Our primary uses of cash are the investment, construction, operation and maintenance of our wastewater treatment and water supply facilities. To date, we have funded our investments and operations principally with borrowings, cash generated from our operations, equity contributions and debt securities. In the future, we believe that our liquidity requirements will be satisfied through a combination of cash flows generated from our operating activities, bank loans and other borrowings, the net proceeds from this Global Offering and other funds raised from the capital markets from time to time. Any significant decrease in the demand for, or pricing of, our products and services, or a significant decrease in the availability of bank loans, may adversely impact our liquidity.

Cash flow

For the years ended 31 December 2012, 2013 and 2014, we had cash and cash equivalents of approximately RMB330.4 million, RMB758.1 million and RMB612.6 million, respectively. The following table sets out our cash flows for the periods indicated:

	For the years ended 31 December		
	2012	2013	2014
	(RMB'000)	(RMB'000)	(RMB'000)
Net cash used in operating activities	(91,721)	(20,191)	(542,359)
Net cash used in investing activities	(11,858)	(9,587)	(303,792)
Net cash generated from financing activities	83,021	457,531	700,664
Cash and cash equivalents at end of the year	330,393	758,146	612,649

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Cash flows used in operating activities

Our net cash used in operating activities was RMB542.4 million for the year ended 31 December 2014, primarily reflecting cash used in operations of RMB434.5 million, income tax paid of RMB53.8 million and interest paid of RMB54.1 million. Our cash used in operations primarily reflected profit before income tax of RMB226.2 million, as adjusted for (i) a RMB682.4 million increase in trade and other receivables and receivables under concession arrangements, primarily reflecting an increase in outstanding equipment and system integration fees in connection with our construction and equipment sales segment, an increase in outstanding repurchase fees in connection with our BT business and an increase in investments in our BOT/TOT projects; (ii) a RMB158.4 million increase in trade and other payables, reflecting payments for subcontracting and procurement expenses in connection with the development of our wastewater treatment and water supply facilities; (iii) depreciation of property, plant and equipment of RMB46.1 million; (iv) a RMB27.6 million decrease in deferred income, reflecting a decrease in the amount of government grants received compared to the amount recognised; and (v) a RMB26.6 million increase in finance costs — net, reflecting an increase in borrowings.

Our net cash used in operating activities was RMB20.2 million for the year ended 31 December 2013, primarily reflecting income tax paid of RMB37.5 million and interest paid of RMB25.9 million. Such amounts were offset by cash generated from operations of RMB43.2 million. Our cash generated from operations primarily reflected profit before income tax of RMB252.2 million, as adjusted for (i) a RMB332.4 million increase in trade and other receivables, primarily reflecting an increase in investments in our BOT/TOT projects and the business expansion of OriginWater Technology; (ii) an increase in trade and other payables of RMB86.8 million, primarily as a result of the business expansion of OriginWater Technology; and (iii) depreciation of property, plant and equipment of RMB32.8 million.

Our net cash used in operating activities was RMB91.7 million for the year ended 31 December 2012, primarily reflecting cash used in operations of RMB45.0 million, interest paid of RMB28.6 million and income tax paid of RMB18.1 million. Our cash used in operations primarily reflected profit before income tax of RMB160.1 million, as adjusted for (i) a RMB209.6 million increase in trade and other receivables, primarily reflecting an increase in investments in our BOT/TOT projects and the business expansion of OriginWater Technology; (ii) a RMB71.9 million increase in gain from the disposal of Jinghong Haotai in connection with the disposal of our remaining 20% equity interest in Jinghong Haotai to an Independent Third Party through public auction; (iii) depreciation of property, plant and equipment of RMB29.1 million; and (iv) government grants of RMB22.6 million received in connection with our wastewater treatment projects.

Cash flows used in investing activities

For the year ended 31 December 2014, our net cash used in investing activities amounted to RMB303.8 million, primarily reflecting (i) RMB305.4 million for the purchase of property, plant and equipment, land use rights and other intangible assets, which primarily included the plant and equipment we purchased for our BOO projects and Membrane Production Plant;

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(ii) RMB265.2 million in funds granted to related parties, primarily YMCI for its business development and working capital and as part of its consolidation of funds in the YMCI Group; and (iii) RMB136.9 million for the acquisition of subsidiaries, net of cash acquired, namely Wuxi Zhongfa Water and Beijing Clean. Such amounts were partially offset by RMB211.7 million in fund repayments from related parties, primarily YMCI.

For the year ended 31 December 2013, our net cash used in investing activities amounted to RMB9.6 million, primarily reflecting (i) RMB333.2 million for the purchases of property, plant and equipment, land use rights and other intangible assets, which included investments in our BOO projects; and (ii) RMB160.0 million in funds granted to related parties, primarily YMCI for its business development and working capital and as part of its consolidation of funds in the YMCI Group. Such amounts were partially offset by (i) RMB410.5 million in fund repayments received from related parties, primarily YMCI; and (ii) RMB39.2 million in proceeds from the disposal of investments accounted for using the equity method, namely our 50% equity interest in Kunming Ruiyuan.

For the year ended 31 December 2012, our net cash used in investing activities amounted to RMB11.9 million, primarily reflecting (i) RMB208.4 million in funds granted to related parties, primarily YMCI for its business development and working capital and as part of its consolidation of funds in the YMCI Group; and (ii) RMB106.9 million for purchases of property, plant and equipment, land use rights and other intangible assets, which included investments in our BOO projects. Such amounts were partially offset by (i) RMB163.4 million in fund repayments received from related parties, primarily YMCI; (ii) RMB93.1 million in proceeds from the disposal of investments accounted for using the equity method, namely our 20% equity interest in Jinghong Haotai; and (iii) RMB62.7 million in government grants relating to purchases of property, plant and equipment and intangible assets.

Cash flows generated from financing activities

For the year ended 31 December 2014, our net cash generated from financing activities amounted to RMB700.6 million, primarily reflecting (i) proceeds from borrowings of RMB499.1 million to replenish our working capital; (ii) proceeds from the issuance of bonds, namely our unsecured non-public private placement bonds, of RMB396.2 million to repay our bank loans, replenish our working capital and expand our business; and (iii) capital injections from equity holders of RMB294.0 million to replenish our working capital. Such amounts were partially offset by repayments of borrowings of RMB353.6 million and dividends paid to our Shareholders of RMB110.5 million.

For the year ended 31 December 2013, our net cash generated from financing activities amounted to RMB457.5 million, primarily reflecting (i) capital injections from our equity holders of RMB482.2 million for the purpose of replenishing our working capital and (ii) proceeds from borrowings of RMB332.9 million and funds from related parties of RMB121.9 million to replenish our working capital and expand our business. Such amounts were partially offset by repayments of borrowings of RMB476.8 million.

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For the year ended 31 December 2012, our net cash generated from financing activities amounted to RMB83.0 million, primarily reflecting (i) capital injections from our equity holders of RMB35.5 million to replenish our working capital and (ii) proceeds from borrowings of RMB106.8 million and funds from related parties of RMB80.2 million for the purpose of replenishing our working capital and expanding our business. Such amounts were partially offset by repayments of borrowings of RMB139.5 million.

Current assets and liabilities

The following table sets out details of our current assets and current liabilities as at the dates indicated:

	As at 31 December			As at 31 March
	2012	2013	2014	2015
	(RMB'000)	(RMB'000)	(RMB'000)	(RMB'000) (unaudited)
Current assets				
Receivables under service concession arrangements	4,056	4,039	9,662	9,662
Available-for-sale financial assets	29,200	—	—	—
Non-current assets held-for-sale	—	24,134	7,500	7,500
Inventories	10,722	8,728	12,459	11,727
Amount due from customers for contract works	—	12,539	6,455	7,367
Trade and other receivables	683,132	516,105	845,486	819,141
Cash and cash equivalents	330,393	758,146	612,649	699,605
	<u>1,057,503</u>	<u>1,323,691</u>	<u>1,494,211</u>	<u>1,555,002</u>
Current liabilities				
Borrowings	471,299	454,957	270,523	472,715
Trade and other payables	274,166	423,176	876,698	780,149
Amount due to customers for contract works	—	5,462	3,727	3,727
Current income tax liabilities	53,409	67,194	66,922	61,998
	<u>798,874</u>	<u>950,789</u>	<u>1,217,670</u>	<u>1,318,589</u>
Net current assets	<u>258,629</u>	<u>372,902</u>	<u>276,541</u>	<u>236,413</u>

As at 31 December 2012, 2013, 2014 and 31 March 2015, we recorded net current assets of approximately RMB258.6 million, RMB372.9 million, RMB276.5 million and RMB236.4 million, respectively.

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Our net current assets decreased from RMB276.5 million as at 31 December 2014 to RMB236.4 million as at 31 March 2015, primarily reflecting a RMB202.4 million increase in borrowings to replenish our working capital. Such amount was partially offset by a RMB96.5 million decrease in trade and other payables as a result of repayment of a portion of our construction fees owed to contractors in the first quarter of 2015 and a RMB87.0 million increase in cash and cash equivalents as a result of an increase in borrowings.

Our net current assets decreased from RMB372.9 million as at 31 December 2013 to RMB276.5 million as at 31 December 2014, primarily because of (i) an increase in trade and other payables of RMB453.5 million, primarily reflecting an increase in procurement expenses to be settled by instalments in connection with our construction and equipment sales segment and construction of our wastewater treatment and water supply projects; and (ii) a decrease in cash and cash equivalents of RMB145.5 million, primarily reflecting the acquisition of Beijing Clean in January 2014, the Gejiu Wastewater Treatment Plant, Mengzi Wastewater Treatment Plant and Wuxi Zhongfa Water in May 2014 and Liuku Water in June 2014. The decrease in net current assets was partially offset by a RMB329.4 million increase in trade and other receivables, primarily reflecting an increase in outstanding equipment and system integration fees in connection with our construction and equipment sales segment.

Our net current assets increased from RMB258.6 million as at 31 December 2012 to RMB372.9 million as at 31 December 2013, primarily because of a significant increase in cash and cash equivalents of RMB427.8 million, primarily reflecting a capital injection of RMB400.0 million by Finergy Development.

Working capital

During the Track Record Period, we met our working capital needs mainly from our cash and cash equivalents on hand, cash flows generated from operations, bank borrowings and equity and debt financing. We manage our cash flow and working capital by closely monitoring and managing, among other things, (i) the level of our trade payables and receivables and (ii) our ability to obtain external financing. We also review future cash flow requirements, assess our ability to meet debt repayment schedules and adjust our investment and financing plans, if necessary, to ensure that we maintain sufficient working capital to support our business operations and expansion plans.

Although we had negative operating cash flow during the Track Record Period, it was mainly due to the accounting treatment for our BOT/TOT project models. Under our BOT/TOT project models, the construction or acquisition costs of our projects are accounted for as cash flows used in operating activities. Conversely, under our BOO/TOO, BT and EPC projects, the construction or acquisition costs of our projects are accounted for as cash flows used in investment activities. In addition to the reason above, our negative net cash flows from operating activities increased substantially to RMB542.4 million in 2014 because our revenue derived from our BT projects increased substantially in 2014 and because we receive repurchase fees only upon repurchase of completed BT projects, which results in an increase in trade receivables.

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In addition, as at 31 March 2015, we had obtained a general credit line of up to RMB1,981.6 million, of which RMB1,321.6 million had been utilised and RMB660.0 million had not been utilised. We have maintained strong and long-term relationships with major commercial banks and financial institutions in the PRC. During the Track Record Period, we made all interest and principal payments on our bank loans in a timely manner and we have been able to renew or roll over our bank loans at maturity as required. We do not foresee any immediate repayment requirement for our bank loans or withdrawal or reduction in banking facilities on short notice that could have a material adverse effect on our liquidity position. Our Directors also confirm that we had no material defaults in payment of trade and other payables and bank borrowings or breaches of material covenants during the Track Record Period.

Based on the foregoing and taking into account the financial resources available to us, including our cash and cash equivalents on hand, cash flow generated from operations, available banking facilities and the estimated net proceeds from the Global Offering, our Directors are of the opinion that we have sufficient working capital required for our operations at present and for at least the next 12 months from the date of this Prospectus.

Receivables under service concession arrangements

We accrue receivables under service concession arrangements throughout a concession period. Our receivables under service concession arrangements refer to the outstanding receivables arising from our construction services, operation services and/or finance income after deducting the tariff payments accrued throughout a concession period. Under our BOT/TOT agreements, the amount of receivables under service concession arrangements will be settled by tariff payments to be received during the operation phase of our BOT/TOT projects. The portion of the receivables under service concession arrangements due within 12 months from a particular balance sheet date are classified as current assets as at that balance sheet date and the remainder are classified as non-current assets.

As at 31 December 2012, 2013 and 2014, receivables under service concession arrangements that were classified as current assets represented 0.4%, 0.3% and 0.6% of our total current assets, respectively. Receivables under service concession arrangements that were classified as current assets increased from RMB4.1 million as at 31 December 2012 to RMB9.7 million as at 31 December 2014, primarily due to an increase in outstanding receivables under service concession arrangements accrued as a result of an increase in investments in our BOT/TOT projects.

As at 31 December 2012, 2013 and 2014, receivables under service concession arrangements that were classified as non-current assets represented 37.8%, 41.8% and 41.0% of our total non-current assets, respectively. Receivables under service concession arrangements that were classified as non-current assets increased from RMB647.0 million as at 31 December 2012 to RMB1,444.6 million as at 31 December 2014, primarily due to an increase in outstanding receivables under service concession arrangements accrued as a result of an increase in investments in our BOT/TOT projects.

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Inventories

	As at 31 December		
	2012	2013	2014
	(RMB'000)	(RMB'000)	(RMB'000)
Raw materials	6,190	3,725	7,101
Goods in transit	2,216	451	813
Work in progress	2,316	4,552	4,545
Total	10,722	8,728	12,459

During the Track Record Period, our inventories mainly consisted of construction materials, chemicals, maintenance equipment and semi-finished and finished goods.

Our inventories decreased from RMB10.7 million as at 31 December 2012 to RMB8.7 million as at 31 December 2013. Such decrease primarily reflected a RMB2.5 million decrease in raw materials due to completion of the construction of the pipeline network for Dali Water in 2013 and a RMB1.8 million decrease in goods in transit, primarily comprising equipment used in connection with wastewater treatment and water supply facilities to be delivered to customers in 2013. Such amounts were offset by a RMB2.2 million increase in work in progress due to the construction works in connection with the wastewater treatment and water supply related facilities in Dali, Yunnan undertaken in 2013.

Our inventories increased from RMB8.7 million as at 31 December 2013 to RMB12.5 million as at 31 December 2014. Such increase primarily reflected a RMB3.4 million increase in raw materials due to the consolidation of the results of operations of Liuku Water into our financial statements beginning in June 2014, respectively.

The following table sets out our inventory turnover days for the periods indicated:

	As at 31 December		
	2012	2013	2014
Inventory turnover days ⁽¹⁾	15.1	7.4	5.9

Note:

- (1) Inventory turnover days are equal to the closing balances of inventories for the relevant period divided by cost of sales for the relevant period, multiplied by 365 days.

Our inventory turnover days decreased from 15.1 days as at 31 December 2012 to 7.4 days as at 31 December 2013, primarily because our inventories decreased by 18.6% as at 31 December 2013 as compared to 31 December 2012 and our cost of sales increased by 65.3%

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in 2013 as compared to 2012. The decrease in inventories was primarily due to the decrease in raw materials and goods in transit as explained above. The increase in cost of sales was primarily a result of an increase in construction costs for our wastewater treatment and water supply segments.

Our inventory turnover days decreased from 7.4 days as at 31 December 2013 to 5.9 days as at 31 December 2014, primarily because our cost of sales increased by 79.2% in 2014 as compared to 2013. The increase in cost of sales was primarily due to an increase in the construction costs for our wastewater treatment, water supply and construction and equipment sales segments.

As at 31 March 2015, approximately 28.4% of our inventories as at 31 December 2014 had been used or sold.

Trade and other receivables

	As at 31 December		
	2012	2013	2014
	(RMB'000)	(RMB'000)	(RMB'000)
Trade receivables			
- Related parties ⁽¹⁾	46,032	87,227	317,862
- Local governments	32,339	65,684	163,386
- Others	108,574	69,623	130,087
Less: provision for impairment ⁽²⁾	(4,440)	(7,056)	(10,973)
Trade receivables — net	182,505	215,478	600,362
Other receivables due from ⁽³⁾ :			
- Related parties	482,511	173,850	63,158
- Third Parties	145,586	146,047	99,306
Less: provision for impairment ⁽⁴⁾	(5,139)	(5,432)	(11,602)
Other receivable — net	622,958	314,465	150,862
Prepayments	41,165	116,687	232,448
Less: non-current portion			
- Prepayment	(29,626)	(52,580)	(100,000)
- Other receivables - third parties	—	(2,255)	(38,186)
- Other receivables - related parties	(133,870)	(75,690)	—
Non-current portion	(163,496)	(130,525)	(138,186)
Current portion	683,132	516,105	845,486

Notes:

- (1) Comprises trade receivables from related parties including (i) Beijing OriginWater; (ii) Yunnan City Voted Erhai Real Estate Limited, a subsidiary of YMCI; (iii) Yunnan Construction, which is wholly-owned by Yunnan SASAC

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and is an Independent Third Party; (iv) The 14th Metallurgical Construction Corporation Ltd., which is wholly-owned by Yunnan SASAC and is an Independent Third Party; and (v) Yunnan Chengjiang Eagle Tourist Resort Co. Ltd., a subsidiary of YMCI. Yunnan Construction and The 14th Metallurgical Construction Corporation Ltd. are our related parties under our accounting policies because they are both wholly-owned by Yunnan SASAC. However, Yunnan SASAC and its associates are not our connected persons because Yunnan SASAC is a PRC Governmental Body as defined under the Listing Rules. As a result, Yunnan Construction and The 14th Metallurgical Construction Corporation Ltd., which are associates of Yunnan SASAC only, are Independent Third Parties.

- (2) Provision for impairment was made primarily because the Directors were of the view that such outstanding receivables were not likely to be recovered after considering, among other things, the credit history of the customers and ageing of such receivables. As at 31 December 2012, 2013 and 2014, the total amount of our provision for impairment was made with respect to trade receivables from others only. In this regard, others includes domestic, industrial and commercial end users as well as construction companies. During the Track Record Period, our provision for impairment increased primarily because our outstanding trade receivables as at the relevant periods increased.
- (3) Our other receivables mainly comprise funds due from related parties and third parties, earnest money for potential business operations, outstanding government grants payable by a local government and security deposits placed with contractors to bid for construction projects. Other receivables due from related parties as at 31 December 2012, 2013 and 2014 primarily comprised receivables from (i) Yunnan Province Water; (ii) Maguan Water; (iii) Manting Garden Co., Ltd, a subsidiary of YMCI; (iv) Jinghong Municipal Investment Garden Landscape Company Limited; (v) Wenshan Water; (vi) Jinghong Municipal Investment Property Management Company Limited, a subsidiary of YMCI; (vii) Beijing OriginWater; and (viii) YMCI. A majority of our other receivables were payments in connection with our lendings to related parties and third parties which contravened the Lending General Provisions as disclosed in “Business — Non-compliance”. As at the Latest Practicable Date, all lendings which contravened the Lending General Provisions had been settled.
- (4) As at 31 December 2012, our provision for impairment was RMB5.1 million, of which nil, 12.4% and 87.6% was made with respect to other receivables from related parties, local governments and others, respectively. As at 31 December 2013, our provision for impairment was RMB5.4 million, of which nil, 11.8% and 88.2% was made with respect to other receivables from related parties, local governments and others, respectively. As at 31 December 2014, our provision for impairment was RMB11.6 million, of which nil, 37.5% and 62.5% was made with respect to other receivables from related parties, local governments and others, respectively. In this regard, others includes domestic, industrial and commercial end users as well as construction companies. As at 31 December 2012 and 2013, our provision for impairment made with respect to other receivables remained relatively stable at RMB5.1 million and RMB5.4 million, respectively. As at 31 December 2014, our provision for impairment made with respect to other receivables increased substantially to RMB11.6 million primarily because (i) as at 31 December 2014, we impaired a security deposit of RMB4.5 million, the repayment of which was delayed by a contractor which we considered to have a material credit risk; and (ii) we consolidated the results of operations of Liuku Water in June 2014 and the provision for impairment made with respect to the other receivables of Liuku Water amounted to RMB1.7 million as at 31 December 2014.

Trade and other receivables primarily consists of (i) receivables from related parties, third parties, local governments and others, less provision for impairment; and (ii) prepayments. Our trade and other receivables (comprising both the current and the non-current portion) decreased from RMB846.6 million as at 31 December 2012 to RMB646.6 million as at 31 December 2013, primarily because of a RMB228.1 million decrease in other receivables due from related parties after the partial repayment of our funds granted to YMCI. Our trade and other receivables (comprising both the current and non-current portion) increased from RMB646.6 million as at 31 December 2013 to RMB983.6 million as at 31 December 2014, primarily because of a RMB231.7 million increase in trade receivables from related parties, a

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RMB97.7 million increase in the trade receivables from local governments and a RMB59.4 million increase in the trade receivables from others. Such increase was partially offset by a RMB110.7 million decrease in other receivables due from related parties and a RMB46.7 million decrease in other receivables due from third parties.

The carrying amount of our trade and other receivables approximate their fair values and are mainly denominated in RMB.

Ageing analysis of trade receivables

In general, we specify a credit period of 90 days or less for our customers. The following table sets out an ageing analysis of our gross trade receivables (i.e. the balance of our trade receivables before deducting the provision for impairment) based on contractual terms:

	As at 31 December		
	2012	2013	2014
	(RMB'000)	(RMB'000)	(RMB'000)
Within one year	154,008	153,266	423,832
One to two years	32,433	51,638	121,497
Two to three years	332	17,309	56,086
Over three years	172	321	9,920
Total	<u>186,945</u>	<u>222,534</u>	<u>611,335</u>

Our gross trade receivables aged within one year grew significantly from RMB153.3 million as at 31 December 2013 to RMB423.8 million as at 31 December 2014, primarily because of the expansion of our construction and equipment sales segment in 2014 as compared to 2013. Such expansion led to an increase in outstanding equipment and system integration fees for our equipment sales business.

Our gross trade receivables aged two to three years grew significantly from RMB17.3 million as at 31 December 2013 to RMB56.1 million as at 31 December 2014, primarily because our trade receivables aged one to two years as at 31 December 2013 remained largely overdue and were reclassified as trade receivables aged two to three years as at 31 December 2014. Our trade receivables aged one to two years as at 31 December 2013 primarily related to equipment and system integration service fees owed by various construction company customers. Such fees remained largely overdue as at 31 December 2014 primarily because our construction company customers generally do not settle our equipment and system integration service fees until receiving their construction fees from the project owners and the construction costs involved in the construction projects had not yet been finalised. See “Financial Information — Liquidity and Capital Resources — Analysis of trade receivables aged over one year”.

As at 31 December 2012, 2013 and 2014, our trade receivables of RMB7.2 million, RMB37.0 million and RMB225.6 million, respectively, were fully performing, and mainly related

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to the retention money to be released by our customers upon completion of a warranty period we granted in connection with our EPC & equipment sales business. The warranty period normally lasts from one to two years. As at 31 December 2012, 2013 and 2014, our trade receivables of RMB175.3 million, RMB178.5 million and RMB374.7 million, respectively, were past due but not impaired. Such receivables related to a number of Independent Third Parties which have no recent history of default. Based on our past experience, our Directors are of the opinion that no provision for impairment is necessary in respect of such receivables, as there has not been a significant change in the credit quality of such customers and such receivables are still considered fully recoverable.

Impairment of trade receivables

At the end of each reporting period, we assess the recoverability of our trade receivables. If there is any event or change in circumstances that renders the trade receivables uncollectible, we consider making an impairment loss. Such events or changes in circumstances include (i) our customers experiencing financial difficulties, (ii) the occurrence of a measurable decrease in our estimated future cash flows from our customers and (iii) construction delays due to natural disasters and changes in economic conditions. Conversely, no impairment loss is made if the circumstances indicate that the trade receivables are collectible. When considering recoverability, we take into account, among other things, the relevant customers' background, creditworthiness, repayment history, financial resources, length of business relationship with us and the reasons for the delay in payment.

As at 31 December 2012, 2013 and 2014, our trade receivables of RMB4.4 million, RMB7.1 million and RMB11.0 million, respectively, were impaired. Our Directors consider that the provisions for impairment of our trade receivables as at the end of each reporting period were adequate because there had not been a significant change in the credit quality of the relevant customers and because the balances of the trade receivables which were not impaired were considered fully recoverable. In particular, for the reasons set out below, we did not impair the following two types of trade receivables:

- *Trade receivables due from local governments* — Our trade receivables due from local governments primarily relate to wastewater treatment tariffs for our BOT/TOT projects. We do not consider any of our local government customers to be a higher credit risk, primarily because these local government customers generally finance our wastewater treatment tariffs from their fees charged to end users. The amount of their fees charged to end users is set to cover our wastewater treatment tariffs. The local government customers settle our wastewater treatment bills after the collection of the fees from end users. Once the fees are collected, the local government customers go through their internal approval procedures, which are stringent and require approvals from various internal departments, including the finance and treasury departments. Although our local government customers occasionally do not settle our wastewater treatment bills promptly, our Directors consider that such delay in payment does not materially affect the recoverability of the trade receivables due from the local governments.

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We acquired wastewater treatment plants in Jiangsu through the acquisition of Wuxi Zhongfa Water in May 2014 and as at 31 December 2014, the local government in Jiangsu owed us wastewater treatment fees of RMB23.5 million. In addition, a local government in Dali, Yunnan owed us wastewater treatment fees of RMB19.6 million and construction contract fees of RMB8.5 million as at the same date. See “Financial Information — Liquidity and Capital Resources — Analysis of trade receivables aged over one year” for additional information on why our Directors did not impair such trade receivables.

- *Trade receivables due from construction companies* — Our trade receivables due from construction companies primarily relate to equipment and system integration fees for our construction and equipment sales segment.

We have access to the financial information of the construction companies which are our related parties, and are able to timely understand their financial condition. During the Track Record Period, nothing came to our attention which caused us to believe that such related parties were experiencing financial difficulties. Some of such related parties are also our suppliers, and we are able to set off our trade receivables from them against our trade and other payables owed to them. As at 31 December 2014, The 14th Metallurgical Construction Corporation Ltd., which is one of our related parties, owed us equipment and system integration fees of RMB122.4 million. As at 31 December 2012, 2013 and 2014, Yunnan Construction and Beijing OriginWater, both of which are our related parties, owed us equipment and system integration fees of RMB19.3 million, RMB79.8 million and RMB185.6 million, and RMB19.1 million, RMB4.1 million and RMB4.1 million, respectively. See “Financial Information — Liquidity and Capital Resources — Analysis of trade receivables aged over one year” for additional information on why our Directors did impair such trade receivables.

For construction companies which are not our related parties, we conduct an analysis of each trade receivable on a case by case basis. In determining whether an impairment provision should be made, we particularly consider the credibility and financial condition of the construction company, the construction project to which we supplied equipment, the contract terms with the construction company, the repayment history of the construction company, the proportion of the outstanding fees to the total contract sum, the repayment plan proposed by the construction company and the subsequent settlement made by the construction company. As at 31 December 2012, 2013 and 2014, a construction company in Yunnan owed us equipment and system integration fees of RMB56.0 million, RMB46.3 million and RMB38.9 million, respectively. As at the same date, five other construction companies owed us equipment and system integration fees totalling RMB55.6 million, RMB13.8 million and RMB12.9 million, respectively. See “Financial Information — Liquidity and Capital Resources — Analysis of trade receivables aged over one year” for an analysis on how our Directors determined the impairment provision amounts.

As at 31 March 2015, approximately RMB180.0 million, or 29.4%, of our outstanding trade receivables as at 31 December 2014, were settled.

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Trade receivables turnover days

The following table sets out our trade receivables turnover days during the Track Record Period.

	As at 31 December		
	2012	2013	2014
Trade receivables turnover days ⁽¹⁾	167	114	199

Note:

- (1) Calculated as the closing balance of trade receivables—net for the relevant period divided by revenue for the relevant period and multiplied by 365 days for each year.

Our trade receivables turnover days decreased from 167 days as at 31 December 2012 to 114 days as at 31 December 2013, primarily due to an increase in our revenue in 2013. Our trade receivables turnover days increased from 114 days as at 31 December 2013 to 199 days as at 31 December 2014, primarily due to the consolidation of the results of operations of Beijing Clean and Wuxi Zhongfa Water beginning in January 2014 and May 2014, respectively. The trade receivables of Beijing Clean and Wuxi Zhongfa Water as at 31 December 2014 were RMB23.7 million and RMB42.4 million, respectively.

Our trade receivables turnover days were substantially longer than the credit periods we granted primarily for the following reasons:

- our trade receivables aged over one year primarily relate to the equipment and system integration service fees owed to us by construction companies. Such construction companies generally settle our equipment and system integration service fees after they receive their construction fees from the owners of the construction projects. Such owners pay construction fees to the construction companies after the amount of construction costs are finalised upon completion of construction. As a result, the settlement of our equipment and system integration services have generally been delayed, which has resulted in an increase in our trade receivables turnover days;
- we acquired Shandong Lingang Water and Beijing Clean in January 2014 and Wuxi Zhongfa Water in May 2014, and their aggregate trade receivables of RMB68.3 million as at 31 December 2014 were consolidated in our consolidated balance sheets as at the same date. The revenue generated by those companies prior to our acquisitions in February and May 2014 was not consolidated into our consolidated statements of comprehensive income for 2014. Because such amounts were not consolidated, our trade receivables turnover days increased significantly, which resulted in our trade receivables turnover days surpassing the credit periods we granted; and

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- our trade receivables turnover days and the credit periods we grant relate to different periods of time in connection with the retention money associated with our EPC & equipment sales business. Credit periods refer to the number of days we grant to our customers for them to settle our issued invoices. We issue invoices to our customers only when the payment obligations of our customers arise pursuant to the relevant contracts. For our EPC & equipment sales business, we issue invoices for the release of retention money upon completion of a warranty period which we grant to our customers. The warranty period usually lasts for one year after the completion of the relevant construction project. Such retention money usually accounts for 5% of the total contract sum. Conversely, our trade receivables turnover days refer to the number of days we required to collect payment for the revenue we recognised in our consolidated financial statements in accordance with our accounting policies. We generally recognise revenue prior to the release of retention money when we render construction services and deliver equipment, which occurs before the commencement of the warranty period. As a result, our trade receivables turnover days were substantially longer than the credit periods we granted.

Internal control measures

We are subject to the credit risks of our customers and our cash flows are dependent on timely payments by our customers. We manage such credit risks by carefully evaluating the financial position and creditworthiness of our customers. To control our exposure to these risks, we have implemented the following credit monitoring measures based on the recommendations of BDO, our internal control consultant:

- For trade receivables of a relatively larger amount or that are due for a relatively longer period, our finance department confirms the balances with our customers. Our finance department then reports the results to our business department for follow-up actions.
- For certain customers whom we view as carrying a higher credit risk, we may require additional credit support. In determining whether a customer should be classified as carrying a higher credit risk, we consider the financial resources and the payment and credit history of the customer. We also consider the business of the customer, our relationship with them and the nature of the proposed transactions. We may treat certain customers as having a higher credit risk if they lack the necessary financial support, if their payment and credit history are not satisfactory, if we do not have a prior business relationship with them or if the nature of the transactions or nature of the business carried on by such customers are prone to significant credit risks.

If we treat a customer as carrying a higher credit risk, the amount and type of additional credit support to be requested from them will reflect the level of credit risk involved. In extreme cases, we may request such customer to provide a letter of credit issued by a reputable financial institution with the guaranteed amount matching the value of the transactions to be entered into with such customer. If such customer refuses to furnish a letter of credit or fails to provide us with other forms

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of credit support to our satisfaction, we can refrain from transacting with such customer in order to control our credit risk. During the Track Record Period, we did not consider any of our customers as carrying a higher credit risk according to the criteria we adopted. As a result, we did not request any customer to provide additional credit support.

- Our finance department is responsible for conducting an ageing analysis of our trade receivables on a monthly basis and furnishes the results to our business department. Our finance department alerts our business department of the risks of recoverability and ensures that our business department collects payments owed to us.
- Our finance department assesses the recoverability of our non-current trade receivables on a monthly basis and makes provisions when there is any event or change in circumstances that renders trade receivables uncollectible.
- For trade receivables aged three months, our business department is required to explain the reasons for the delay in payment and appoints a designated person to be responsible for collecting payment. Our finance department is responsible for assisting and supervising the collection of such payment.
- If there is any sign of deterioration of recoverability, we consider whether we should take legal actions against such customers.
- We structure our performance assessment for our employees in our business department to incentivise them to collect outstanding trade receivables.

Our Directors are of the view that adequate and effective credit monitoring measures were in place during the Track Record Period.

Analysis of trade receivables aged over one year

During the Track Record Period, the majority of our trade receivables aged over one year related to our equipment and system integration service fees under our construction and equipment sales segment. Our customers were construction companies, and such construction company customers were mainly engaged by two types of project owners to construct wastewater treatment and water supply projects:

- the local governments, which engage our construction company customers to construct wastewater treatment and water supply projects under a BT project model; and
- the awardees of concession rights by local governments to construct and operate wastewater treatment and water supply projects under BOT and BOO project models.

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Our construction company customers sub-contract some construction works to, and procure certain water related equipment from, us. Our construction company customers are contractually obliged to settle our construction, equipment and system integration service fees whether or not they receive any payments from the owners of the construction projects. However, our construction company customers usually settle our equipment and system integration service fees upon receipt of their construction fees from the project owners, which are typically made in instalments based on the progress of construction of the project. Their final instalment is received when the amount of the construction costs involved in the construction project is finalised, which usually follows the completion of construction.

When the project owners are local governments, the settlement of our fees by our construction company customers may be indirectly affected by the financial resources of the local governments. If the local governments encounter financial difficulties in settling the construction fees owed to our construction company customers, the settlement of our equipment and system integration service fees may be delayed. To control such risk, we only provide services to construction company customers which are considered to possess sufficient financial resources. During the Track Record Period, none of our trade receivables aged over one year were overdue as a result of the financial difficulties of the local governments or our construction company customers. When the project owners are awardees of concession rights, the settlement of our fees by our construction company customers does not relate to the financial resources of the local governments because under BOT and BOO project models, the awardees are required to bear the construction costs, which include our equipment and system integration service fees.

As at 31 December 2014, our trade receivables aged over one year which had not been impaired amounted to RMB177.5 million and mainly comprised:

- RMB74.8 million in equipment and system integration service fees owed by Yunnan Construction, which is one of our related parties. In March 2015, we received RMB12.0 million in payments from this customer. Our Directors consider that there is no recoverability issue for this customer because (i) this customer has constructed several of our projects and we expect to set off our outstanding fees against our outstanding payables of RMB137.6 million owed to this customer as at 31 December 2014 in the second quarter of 2015, and (ii) this customer is considered to possess strong financial resources. As at 31 December 2014, we had not impaired any trade receivables owed by this customer;
- RMB34.7 million in equipment and system integration service fees owed by a construction company in Yunnan. The construction company carried out the construction work for a wastewater treatment project in Kunming, Yunnan owned by a local government under a BT project model. We provided equipment and related technical service to this customer for total fees of RMB93.5 million in 2010. As at 31 December 2014, such customer had paid us RMB54.6 million. In March 2015, we received a further RMB19.4 million in payments from this customer. The remaining fees are outstanding because the project is pending finalisation of the amount of

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construction costs involved, which is expected to take place in the second quarter of 2015. Once finalised, the owner of the project will pay the construction fees to the construction company and the construction company will settle our remaining equipment and system integration service fees.

Our Directors consider that there is no significant recoverability issue for this customer, as we believe that it possesses strong financial resources based on our review of its latest financial statements. We expect to receive the outstanding fees by the second quarter of 2015. On the basis of the above, our Directors consider that this customer does not carry a higher credit risk. We therefore have not requested for additional credit support from this customer. However, we have made provision for RMB4.2 million in trade receivables owed by this customer as at 31 December 2012. In determining the amount of the impairment provision that should be made, our Directors took into consideration (i) the delay in the finalisation of the construction costs involved in, and the completion of, the construction project, and our obligation to provide repair and maintenance services for two years after such finalisation and completion; (ii) the fact that the expected time for finalisation of the construction costs and completion of the project was uncertain as at 31 December 2012; and (iii) the fact that we expect to incur costs of RMB4.2 million for carrying out the repair and maintenance services, resulting in a RMB4.2 million decrease in our expected future cash flows from this customer as compared with the book value of such trade receivables as at 31 December 2012. No further amount was required to be impaired because there has not been a significant change in the credit quality of this customer and because the remaining balance due to us is still considered fully recoverable;

- RMB10.5 million in wastewater treatment and water supply fees and RMB2.6 million in construction contract fees owed by a local government in Dali, Yunnan. Such wastewater treatment and water supply fees primarily related to the adjusted portion of the wastewater treatment and water supply tariffs of Dali Water. The adjustment is required to be approved by the local government and the approval was obtained in September 2014. The construction contract fees primarily related to one of the ancillary projects under the Dali Wastewater Collection and Treatment Systems for 100 Villages (72 plants) project. Such fees are outstanding because the ancillary project is pending finalisation of the amount of construction costs involved, which is expected to take place after the completion of the entire BT project. As a result, our Directors consider that there is no material credit risk from this local government. As at 31 December 2014, we had not made provision for any trade receivables owed by this customer;

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- RMB9.1 million in wastewater treatment fees owed by a local government in Jiangsu. Our Directors consider that there is no recoverability issue for this customer, as we are liaising with the local government and plan to set off our outstanding receivables against our outstanding payables of RMB12.7 million owed to the construction entity of this local government as at 31 December 2014 in the second quarter of 2015. The construction entity of this local government constructed our wastewater treatment facility in Jiangsu. The remaining RMB3.6 million is not expected to be set off and such fees remain outstanding primarily because our construction fees owed to the construction entity of this local government have not been finalised. Once the construction fees are finalised and set off against our wastewater treatment fees in the second quarter of 2015, this local government is expected to pay us any additional outstanding fees that have not been set off against the construction fees within the second quarter of 2015. As a result, our Directors consider that there is no material credit risk from this local government. As at 31 December 2014, we had not made provision for any trade receivables owed by this customer;
- RMB4.6 million in wastewater treatment fees owed by a local government in Mile, Yunnan. In April 2015, this customer settled such outstanding fees in full. Our Directors considered that there was no recoverability issue for this customer, as we were liaising with the local government to set off our outstanding receivables against our outstanding payables of RMB9.4 million owed to this local government as at 31 December 2014. Such payables related to our outstanding consideration for the acquisition of a wastewater treatment facility from this local government. As at 31 December 2014, we had not made provision for any trade receivables owed by this customer;
- RMB4.1 million in equipment and system integration service fees owed by Beijing OriginWater, our second largest Controlling Shareholder. In March 2015, Beijing OriginWater settled such outstanding fees in full. Beijing OriginWater was engaged by a local government to carry out the construction work for a wastewater treatment project under a BT project model. The construction project has been completed and was repurchased by the local government after the finalisation of the amount of construction costs involved, which took place in the first quarter of 2015. Such fees were outstanding as at 31 December 2014 because the amount of the construction costs involved had not yet been finalised. As at 31 December 2014, we had not made provision for any trade receivables owed by this customer;
- RMB4.0 million in wastewater treatment fees owed by a local government in Shuifu, Yunnan. Such fees are outstanding primarily because the local government is going through its stringent internal procedures, including increasing its water supply tariffs, to settle our fees, which are expected to be completed by the second quarter of 2015. As a result, our Directors consider that there is no material credit risk form this local government. As at 31 December 2014, we had not made provision for any trade receivables owed by this customer;

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- RMB3.2 million in equipment and system integration service fees owed by a construction company. In March 2015, we received RMB1.7 million in payment from this customer. The relevant BOT project is pending the finalisation of the amount of construction costs involved. The amount is expected to be finalised by the first half of 2015. Once finalised, we as the owner of the project will pay the construction fees to the construction company and the construction company will settle our equipment and system integration service fees. Our Directors consider that there are no recoverability issues for this customer because we have more than three years of business relationships with it. We expect to receive the outstanding fees by the first half of 2015. As at 31 December 2014, we had made provision for RMB0.4 million in trade receivables owed by this customer for prudence's sake, as the payment of our fees was expected to be delayed due to the delay in the finalisation of the construction costs involved in the construction projects.

As at 31 December 2014 and save as disclosed above, our other trade receivables aged over one year that were owed by local governments in the PRC mainly included RMB8.4 million in wastewater treatment fees and construction contract fees owed by four local governments, with their respective amounts owed not exceeding RMB2.7 million. As at 31 December 2014, the above customers also owed us aggregate trade receivables of RMB130.1 million which were aged less than one year. Our Directors adopted the same approach discussed above in analysing such trade receivables. Our Directors confirm that, apart from the trade receivables on which impairment for doubtful debts has been made, there were no material recoverability issues regarding outstanding trade receivables as at the Latest Practicable Date.

As at 31 March 2015, approximately 29.4% of our outstanding trade receivables as at 31 December 2014 were settled.

Trade and other payables

Our trade and other payables mainly comprise trade payables and other payables due to related parties and third parties.

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The following table sets out our trade and other payables as at the dates indicated:

	As at 31 December		
	2012	2013	2014
	(RMB'000)	(RMB'000)	(RMB'000)
Trade payables:			
- Related parties ⁽¹⁾	5,909	32,376	145,401
- Third parties	166,465	240,317	376,656
Other payables due to:			
- Related parties	9	11,315	37,894
- Third parties	66,503	82,078	245,165
Advance from customers	10,086	24,049	15,239
Staff welfare benefit payable	5,253	8,898	19,676
Other taxes payable ⁽²⁾	19,941	24,143	36,667
Total	274,166	423,176	876,698

Notes:

- (1) Our trade payables due to related parties as at 31 December 2012, 2013 and 2014 primarily related to our purchases from Beijing OriginWater, our second largest Controlling Shareholder, as well as the 14th Metallurgical Construction Corporation Ltd. and Yunnan Construction, both of which are Independent Third Parties.
- (2) Comprises municipal land use taxes payable, business taxes payable and value-added taxes payable.

Other payables due to related parties comprises funding from, and construction fees due to, Yunnan Province Water, Jinghong Investment, Yunnan Construction, Wenshan Water and OriginWater Technology. Our other payables due to related parties as at 31 December 2013 and 31 December 2014 primarily reflected construction fees due to Yunnan Construction, which is wholly-owned by Yunnan SASAC, is one of our contractors for our BOO projects and is an Independent Third Party.

Other payables due to third parties comprises funds from and construction fees due to third parties. The respective balances of our other payables due to third parties as at 31 December 2012, 2013 and 2014 primarily reflected various construction fees owed to our contractors for our BOO projects. All of such contractors are Independent Third Parties.

The increase in our trade and other payables from RMB423.2 million as at 31 December 2013 to RMB876.7 million as at 31 December 2014 was primarily due to a RMB163.1 million increase in other payables due to third parties and a RMB249.4 million increase in trade payables due to related parties and third parties. The increase in other payables due to third parties primarily reflects amounts due to third parties for the acquisition of wastewater treatment and water supply facilities in 2014. Such amounts reflected the remaining consideration to be paid in relation to the acquisitions of the Gejiu Wastewater Treatment Plant and Mengzi Wastewater Treatment Plant. The increase in trade payables due to related parties

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and third parties primarily reflected an increase in procurement expenses to be settled by instalments in connection with our construction and equipment sales segment and construction of our wastewater treatment and water supply facilities in 2014 as compared to 2013.

The increase in our trade and other payables from RMB274.2 million as at 31 December 2012 to RMB423.2 million as at 31 December 2013 was primarily due to (i) a RMB100.3 million increase in trade payables, (ii) a RMB15.6 million increase in other payables due to third parties and (iii) a RMB14.0 million increase in advances from customers. Such increases were primarily a result of the consolidation of the results of operations of Guoqing Environmental, which engages in the construction and equipment sales business, into our financial statements in 2013, together with the expansion of the business operations of OriginWater Technology, which also engages in the construction and equipment sales business, in 2013 as compared to 2012. As at 31 December 2013, the trade payables of Guoqing Environmental and OriginWater Technology were RMB9.0 million and RMB158.6 million, respectively.

The following table sets out our trade payables turnover days during the Track Record Period.

	As at 31 December		
	2012	2013	2014
Trade payables turnover days ⁽¹⁾	243	233	248

Note:

- (1) Calculated as the closing balance of trade payables for the relevant period divided by cost of sales for the relevant period and multiplied by 365 days for each year.

Our trade payables turnover days decreased from 243 days as at 31 December 2012 to 233 days as at 31 December 2013, primarily because we purchased less raw materials and equipment in 2013 given that most of our projects under construction in 2012 commenced operation in 2013. Our trade payables turnover days increased from 233 days as at 31 December 2013 to 248 days as at 31 December 2014, primarily because our trade payables increased in 2014 as compared to 2013, which reflected more procurement expenses to be settled by instalments in connection with our construction and equipment sales segment and construction of our wastewater treatment and water supply projects.

Our credit terms with our suppliers were 120 days or less during the Track Record Period. As at 31 March 2015, approximately 29.2% of our outstanding trade payables as at 31 December 2014 were settled.

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CAPITAL EXPENDITURES

Historical capital expenditures

Our major capital expenditures consist primarily of expenditures to acquire intangible assets, land use rights and property, plant and equipment. We funded our capital expenditures from our internal resources, bank borrowings and corporate bonds.

The following table sets out our capital expenditures for the periods indicated.

	For the years ended 31 December		
	2012	2013	2014
	(RMB'000)	(RMB'000)	(RMB'000)
Intangible assets	3,026	9,878	105,055
Land use rights	—	2,024	29,882
Property, plant and equipment	<u>100,705</u>	<u>338,550</u>	<u>234,759</u>
Total	<u><u>103,731</u></u>	<u><u>350,452</u></u>	<u><u>369,696</u></u>

Our capital expenditures increased from RMB103.7 million in 2012 to RMB350.5 million in 2013, primarily due to a RMB237.8 million increase in expenditures for property, plant and equipment. Our expenditures for property, plant and equipment increased as a result of the construction of new wastewater treatment and water supply facilities under BOO project models in 2013.

Our capital expenditures in 2014 were RMB369.7 million, which primarily reflected (i) expenditures of RMB234.8 million for property, plant and equipment in connection with the development of the Dali Water and Jinhong Water wastewater treatment and water supply facilities and the Membrane Manufacturing Plant; and (ii) expenditures of RMB105.1 million for intangible assets in connection with the acquisition of the Jinan New Material Industrial Park Tap Water Supply Project.

Planned capital expenditures

Our planned capital expenditures for the year ending 31 December 2015 are RMB517.5 million. Such capital expenditures primarily relate to the construction of our wastewater treatment and water supply projects. We plan to fund our future capital expenditures with our internal resources, bank borrowings, corporate bonds and proceeds from the Global Offering.

Our planned capital expenditures may be subject to change due to variations in our future cash flows, results of operations and financial condition, changes in the PRC and world economy, the availability of financing on terms acceptable to us, technical and other problems obtaining and installing equipment, changes in the regulatory environment in the PRC and other factors.

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CONTRACTUAL COMMITMENTS

Capital commitments

As at 31 December 2012, 2013 and 2014, our capital commitments relating to property, plant and equipment were RMB48.3 million, RMB113.9 million and RMB323.8 million, respectively.

Operating lease commitments

During the Track Record Period, we leased a portion of the office premises that we use under operating lease arrangements. The following table sets out our total future aggregate minimum lease payments under non-cancellable operating leases as at each date indicated:

	As at 31 December		
	2012	2013	2014
	(RMB'000)	(RMB'000)	(RMB'000)
Within one year	44	333	2,995
One to five years	235	579	1,477
Over five years	224	170	54
Total	<u>503</u>	<u>1,082</u>	<u>4,526</u>

INDEBTEDNESS

Our borrowings during the Track Record Period primarily consisted of short term and long term bank borrowings, other borrowings and corporate bonds.

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Our borrowings as at 31 December 2012, 2013, 2014 and 31 March 2015, for the purpose of calculating our indebtedness, were as follows:

	As at 31 December			As at 31 March
	2012	2013	2014	2015
	(RMB'000)	(RMB'000)	(RMB'000)	(RMB'000) (unaudited)
Non-current				
Long-term bank borrowings				
- Secured	334,864	320,568	489,332	479,273
- Unsecured	11,095	11,095	19,545	19,545
Subtotal bank borrowings	345,959	331,663	508,877	498,818
Other borrowings - unsecured	—	—	6,000	—
Corporate bonds	—	—	396,838	397,756
	<u>345,959</u>	<u>331,663</u>	<u>911,715</u>	<u>896,574</u>
Less: current portion of long term borrowings				
Bank borrowings				
- Secured	(82,314)	(130,839)	(38,814)	(43,806)
- Unsecured	—	—	(3,909)	(3,909)
	<u>263,645</u>	<u>200,824</u>	<u>868,992</u>	<u>848,859</u>
Current				
Short-term bank borrowings				
- Secured	100,000	—	—	—
- Unsecured	27,950	280,568	225,000	425,000
Subtotal bank borrowings	127,950	280,568	225,000	425,000
Other borrowings - unsecured	261,035	43,550	2,600	—
Current portion of long-term bank borrowings	82,314	130,839	42,723	47,715
	<u>471,299</u>	<u>454,957</u>	<u>270,323</u>	<u>472,715</u>
Total	<u>734,944</u>	<u>655,781</u>	<u>1,139,315</u>	<u>1,321,574</u>
Denominated in:				
- RMB	703,264	623,716	1,112,271	1,297,398
- Euro	31,680	32,065	27,044	24,176
Total	<u>734,944</u>	<u>655,781</u>	<u>1,139,315</u>	<u>1,321,574</u>

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For the years ended 31 December 2012, 2013 and 2014, our borrowings carried weighted average interest rates of 6.36%, 6.44% and 6.84% per annum, respectively.

As at 31 December 2012, 2013 and 2014, 59.2%, 48.9% and 42.9% of our borrowings, respectively, were secured. Details of such borrowings are as follows:

- as at 31 December 2012, 2013 and 2014, bank borrowings of RMB403.2 million, RMB288.5 million and RMB462.3 million, respectively, were secured by guarantees from our related parties, our buildings, our machinery and our concession rights. As at the Latest Practicable Date, the security granted by our related parties had been released; and
- as at 31 December 2012, 2013 and 2014, bank borrowings of RMB31.7 million, RMB32.1 million and RMB27.0 million, respectively, were secured by a guarantee from a PRC local government.

Our loan agreements typically include material covenants such as requirements to promptly notify the lending banks in the event of any material adverse changes in our operations and financial condition and restrictions on the use of proceeds from the bank borrowings. Moreover, we are typically required to obtain the relevant lending bank's prior written consent before we conduct reorganisations, mergers, demergers, joint ventures, capital reductions, equity transfers, transfers of major assets or creditor's rights, material investments, substantial increases of debt financing or other actions that may adversely affect our ability to repay the loans. We cannot assure you that we always are able to obtain the lending bank's consent for any of these activities. If we fail to obtain such consent, our business may be impeded. See "Risk Factors — Risks Relating to Our Business and Industry — We are restricted by covenants in our financing agreements".

Our loan agreements may also include material financial covenants determined in accordance with PRC GAAP, such as the obligations for Dali Water to ensure that (i) its gearing ratio does not exceed 80% of its audited net assets, (ii) the amount of its guarantee does not exceed either its audited net assets or the prescribed amount under its articles of association, and (iii) its interest coverage ratio and account receivables turnover rate do not fall below 1.9 times and 2.1 times, respectively. In the event that we fail to comply with the foregoing financial covenants, the lending banks have the right to, among other things, (i) require us to immediately repay the loans and the accrued interest and indemnify them for any loss they may suffer therefrom and (ii) terminate our loan agreements. Furthermore, we may be required to provide additional guarantees upon the lending banks' request if any changes in our guarantor adversely affect the guarantee granted by the guarantor to the lending banks.

Our Directors confirm that we complied with all material covenants under our loan agreements during the Track Record Period and up to the Latest Practicable Date.

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As at 31 December 2012, 2013, 2014 and 31 March 2015, our borrowings were repayable as follows:

	As at 31 December			As at 31 March
	2012	2013	2014	2015
	(RMB'000)	(RMB'000)	(RMB'000)	(RMB'000) (unaudited)
Bank Borrowings				
Within one year	210,264	411,407	267,723	472,715
One to two years	85,794	88,840	57,587	60,118
Two to five years	113,478	53,456	228,284	216,353
Over five years	64,373	58,528	180,283	174,632
Subtotal	<u>473,909</u>	<u>612,231</u>	<u>733,877</u>	<u>923,818</u>
Other Borrowings				
Within one year	261,035	43,550	2,600	—
One to two years	—	—	6,000	—
Two to five years	—	—	396,838 ⁽¹⁾	397,756
Subtotal	<u>261,035</u>	<u>43,550</u>	<u>405,438</u>	<u>397,756</u>
Total	<u>734,944</u>	<u>655,781</u>	<u>1,139,315</u>	<u>1,321,574</u>

Note:

- (1) Our other borrowings of a term of two to five years increased substantially as at 31 December 2014 as compared to 31 December 2013 primarily because we issued corporate bonds in the amount of RMB400.0 million in June 2014.

Our Directors confirm that there was no delay or default in the repayment of our borrowings during the Track Record Period. Our Directors further confirm that, save as disclosed above, our loan agreements do not contain any material financial covenants or other material covenants.

As at the close of business on 31 March 2015, being the latest practicable date for the purpose of this indebtedness statement, we had aggregate outstanding bank loans of approximately RMB923.8 million.

Our unutilised credit line as at 31 March 2015 was RMB660.0 million. Our Directors are of the view that our Group will not have difficulty obtaining new banking facilities after the Listing.

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On 25 October 2013, our Company entered into an underwriting agreement with a PRC bank (the “**Underwriting Bank**”), according to which the Underwriting Bank undertook to underwrite corporate bonds of up to RMB800.0 million issued by our Company for a period of two years from 14 January 2014. On 18 June 2014, our Company issued corporate bonds in the principal amount of RMB400.0 million which will mature in June 2017 with an interest rate of 7.7% per annum. The salient terms of the underwriting agreement which governs the terms of our corporate bonds are as follows:

<i>Term</i>	From 19 June 2014 to 19 June 2017.
<i>Interest Rate</i>	7.7% per annum.
<i>Underwriting Fee</i>	RMB3.78 million
<i>Use of Proceeds</i>	The proceeds shall be used for the purpose and in the amount as follows: • approximately RMB331.0 million shall be used for repayment of our bank loans; and • approximately RMB69.0 million shall be used to replenish our working capital.
<i>Our Obligations and Covenants</i>	The bonds will be redeemed on 19 June 2017. Our Company will notify investors in advance of any proposed actions which may materially affect our ability to issue the bonds or redeem the issued bonds, including, but not limited to: • entering into any pledge, guarantee or material agreements; • any alternation of over one-third of our Directors, two-thirds of our Supervisors, our chairman or our general manager or the failure of our chairman or general manager to fulfil their responsibilities; • proceeding with asset transfers, capital reductions, mergers, demergers or applications for bankruptcy; • any unlawful activities by our management, any material litigation or arbitration or any major default in debt repayment; • encountering any serious operation or financial difficulties; and • other matters that may materially affect an investors’ investment decision.

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As advised by our PRC legal adviser, we are not required to notify the investors of the Corporate Reorganisation or the Listing pursuant to the terms of the underwriting agreement.

*Consequence of Breach
of Obligations and
Covenants*

If we default in our payment of the underwriting fee, we will be subject to liquidated damages of 0.05% of the unpaid amount per day. If we breach our other obligations under the underwriting agreement or breach any relevant laws or regulations, we will be obliged to compensate the Underwriting Bank for its actual losses. In these cases, the Underwriting Bank is entitled to suspend or terminate its underwriting obligation partially or wholly with respect to the unissued bonds.

Termination

We and the Underwriting Bank have the right to terminate the underwriting agreement due to default, material adverse events or force majeure events resulting in frustration of the underwriting agreement.

We are subject to the restrictions stipulated in our loan agreements and underwriting agreement. If we breach our obligations and covenants, we may trigger an event of default. To ensure that we comply fully with the restrictions stipulated in our loan agreements and underwriting agreement, we have implemented the following internal control measures as recommend by BDO, our internal control consultant:

- Our finance department maintains copies of each financing agreement.
- Our finance department ensures that we pay interest and repay our borrowings in accordance with the financing agreements.
- We set up specific accounts for depositing our proceeds under the financing agreements.
- Our finance department ensures that our use of proceeds complies with the financing agreements and maintains records regarding such use.

In June 2014, we obtained the lending banks' prior written consent for the conversion of our Company from a limited liability company into a joint stock limited liability company. As advised by our PRC legal adviser, we are not required under our loan agreements or underwriting agreement to notify or obtain any other consent from the lending banks or the Underwriting Bank for the Corporate Reorganisation or the Listing.

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Except as disclosed above, our Directors confirm that, during the Track Record Period and up to the Latest Practicable Date, our Group did not have any outstanding loan capital issued or agreed 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.

Moreover, our Directors confirm that up to the Latest Practicable Date, there had been no material change in our indebtedness or contingent liabilities since 31 March 2015. 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 the Listing other than through its existing available credit facilities.

CONTINGENT LIABILITIES

During the Track Record Period and up to 31 March 2015, we did not have significant contingent liabilities. As at the Latest Practicable Date, we were not involved in any material legal proceedings, nor were we aware of any pending or potential material legal proceedings involving our Group. If our Group is involved in any material legal proceedings in the future, and based on the information then available, if it is likely that a loss has been incurred and the amount of the loss can be reasonably estimated, we will then record a contingent liability.

LISTING EXPENSES

The total estimated listing expenses in relation to the Global Offering (including underwriting commission based on the mid-Offer Price of HK\$5.40) is expected to be approximately RMB122.1 million. During the Track Record Period, we incurred listing expenses in relation to the Global Offering of RMB34.2 million. We expect to incur further listing expenses in relation to the Global Offering of approximately RMB87.9 million prior to the completion of the Global Offering, of which approximately RMB12.8 million will be recognised in our consolidated statements of comprehensive income for the year ending 31 December 2015 and approximately RMB75.1 million will be deducted from equity upon the Listing.

The listing expenses above are the latest practicable estimate and are for reference only. The actual amount may differ from this estimate. Our Directors do not expect such expenses to have a material adverse impact on our financial results for the year ending 31 December 2015.

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FINANCIAL RATIOS

	As at and for the years ended 31 December		
	2012	2013	2014
Current Ratio ⁽¹⁾	1.3	1.4	1.2
Quick Ratio ⁽²⁾	1.3	1.4	1.2
Gearing Ratio ⁽³⁾	20.3%	N/A ⁽⁹⁾	16.2%
Return on Equity ⁽⁴⁾	8.0%	8.8%	6.9%
Return on Total Assets ⁽⁵⁾	4.6%	5.6%	3.7%
Interest Coverage Ratio ⁽⁶⁾	8.5	11.8	8.2
Net Profit Margin ⁽⁷⁾	31.6%	29.2%	17.1%
Net Debt to Equity Ratio ⁽⁸⁾	25.5%	N/A ⁽⁹⁾	19.4%

Notes:

- (1) Equals current assets divided by current liabilities as at the end of the period.
- (2) Equals current assets less inventories divided by current liabilities as at the end of the period.
- (3) Equals net debt divided by total capital at the end of the period. Net debt is calculated as total borrowings less cash and cash equivalents at the end of the period. Total capital is calculated as total equity plus net debt.
- (4) Represents profit for the year as a percentage of total equity for the same period.
- (5) Represents profit for the year as a percentage of total assets for the same period.
- (6) Equals profit for the year before finance costs — net and income tax divided by finance costs — net for the same period.
- (7) Equals profit for the year divided by revenue for the same period.
- (8) Equals net debt divided by total equity as at the end of the period. Net debt is calculated as total borrowings less cash and cash equivalents at the end of the period.
- (9) Not applicable as the amount of cash and cash equivalents exceeded total borrowings as at the end of the period.

Current and quick ratio

As at 31 December 2012, 2013 and 2014, our current and quick ratios remained relatively stable at 1.3, 1.4 and 1.2, respectively.

Gearing ratio

As at 2012, our gearing ratio was 20.3%. Our gearing ratio was not applicable as at 31 December 2013, primarily because our cash and cash equivalents exceeded our total borrowings as at that date. Our cash and cash equivalents as at 31 December 2013 primarily reflected a RMB427.8 million capital injection by Finergy Development, our pre-IPO investor, in 2013. Our gearing ratio was 16.2% as at 31 December 2014, primarily as a result of a RMB483.5 million increase in our borrowings as at 31 December 2014 compared to 31 December 2013. Such increase in our borrowings was primarily caused by our issue of

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corporate bonds in the amount of RMB400 million in June 2014 to repay our bank loans and replenish our working capital. Our gearing ratio as at 31 December 2014 was lower than as at 31 December 2012, primarily because we maintained a larger cash balance as at 31 December 2014 as compared to 31 December 2012.

Return on equity

Our return on equity increased from 8.0% as at 31 December 2012 to 8.8% as at 31 December 2013. Our return on equity improved from 2012 to 2013 primarily because our profit increased at a faster rate than our total equity, which was attributable to our overall business expansion during the period. Our return on equity decreased to 6.9% as at 31 December 2014 primarily because our profit decreased from RMB200.9 million for the year ended 31 December 2013 to RMB187.8 million for the year ended 31 December 2014. Our profit decreased primarily because our gross profit margin decreased from 37.9% in 2013 to 30.3% in 2014 and our other income as a percentage of revenue decreased from 12.3% in 2013 to 4.5% in 2014. In addition, our administrative expenses increased substantially in 2014 as compared to 2013. See “Financial Information — Period to Period Comparison of Results of Operations — Year ended 31 December 2013 compared to year ended 31 December 2014” for the reasons for the decreases in gross profit margin and other income as well as the increase in administrative expenses.

Return on total assets

Our return on total assets increased from 4.6% as at 31 December 2012 to 5.6% as at 31 December 2013. Our return on total assets improved from 2012 to 2013, primarily because our profit increased more than our total assets, which was attributable to our overall business expansion during the period. Our return on total assets decreased to 3.7% as at 31 December 2014, primarily because our profit decreased from RMB200.9 million for the year ended 31 December 2013 to RMB187.8 million for the year ended 31 December 2014. Our profit decreased primarily because our gross profit margin decreased from 37.9% in 2013 to 30.3% in 2014 and our other income as a percentage of revenue decreased from 12.3% in 2013 to 4.5% in 2014. In addition, our administrative expenses increased substantially in 2014 as compared to 2013. See “Financial Information — Period to Period Comparison of Results of Operations — Year ended 31 December 2013 compared to year ended 31 December 2014” for the reasons for the decreases in gross profit margin and other income as well as the increase in administrative expenses.

Interest coverage ratio

Our interest coverage ratio increased from 8.5 as at 31 December 2012 to 11.8 as at 31 December 2013, primarily due to a RMB81.9 million increase in operating profit in 2013 compared to 2012. Our interest coverage ratio decreased to 8.2 as at 31 December 2014 primarily due to a RMB21.0 million decrease in our operating profit in 2014 as compared to 2013. Our operating profit decreased primarily because our gross profit margin decreased from 37.9% in 2013 to 30.3% in 2014 and our other income as a percentage of revenue decreased from 12.3% in 2013 to 4.5% in 2014. In addition, our administrative expenses

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increased substantially in 2014 as compared to 2013. See “Financial Information — Period to Period Comparison of Results of Operations — Year ended 31 December 2013 compared to year ended 31 December 2014” for the reasons for the decreases in gross profit margin and other income as well as the increase in administrative expenses.

Net profit margin

For the years ended 31 December 2012, 2013 and 2014, our net profit margin was 31.6%, 29.2% and 17.1%, respectively. Our net profit margin decreased from 31.6% in 2012 to 29.2% in 2013, primarily because of a RMB34.8 million increase in administrative expenses as a result of our overall business expansion, which was in line with our growth in revenue in 2013 as compared to 2012. Our net profit margin decreased to 17.1% in 2014, primarily because our gross profit margin decreased from 37.9% in 2013 to 30.3% in 2014 and our other income as a percentage of revenue decreased from 12.3% in 2013 to 4.5% in 2014. In addition, our administrative expenses increased substantially in 2014 as compared to 2013. See “Financial Information — Period to Period Comparison of Results of Operations — Year ended 31 December 2013 compared to year ended 31 December 2014” for the reasons for the decreases in gross profit margin and other income as well as the increase in administrative expenses.

In 2015, we expect that our net profit margin will continue to decrease primarily because (i) the gross profit for our water supply segment is expected to increase at a slower rate than our cost of sales for our water supply segment, primarily as a result of the expected increase in the number of our water supply projects under construction; and (ii) our other income is expected to decrease in 2015 as compared to 2014 as the government grants, which are not predictable and fluctuate from year to year, may decrease.

Net debt to equity ratio

Our net debt to equity ratio was 25.5% as at 31 December 2012. As at 31 December 2013, our net debt to equity ratio was not applicable because our cash and cash equivalents exceeded the balance of our borrowings following the capital injection by Finergy Development, our pre-IPO investor, in 2013. Our net debt to equity ratio was 19.4% as at 31 December 2014, primarily as a result of our issue of corporate bonds in the amount of RMB400 million in June 2014.

RELATED PARTY TRANSACTIONS

With respect to the related party transactions set out in Note 39 of the Accountant's Report, our Directors confirm that these transactions were conducted on normal commercial terms and were not less favourable to us than terms available to or from Independent Third Parties.

OFF-BALANCE SHEET COMMITMENTS AND ARRANGEMENTS

As at the Latest Practicable Date, we had not entered into any off-balance sheet transactions.

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DISTRIBUTABLE RESERVES

As at 31 December 2014, we had distributable reserves of approximately RMB366.5 million, which are available for distribution to our Shareholders.

OFFER STATISTICS

Except where otherwise indicated, the Global Offering statistics have been prepared on the assumption that the Over-allotment Option is not exercised. The Offer Prices of HK\$5.00 per H Share and HK\$5.80 per H Share do not include the 1% brokerage, 0.005% Stock Exchange trading fee and 0.0027% SFC transaction levy, which are payable by applicants under the Global Offering.

	Based on an Offer Price of HK\$5.00 per H Share	Based on an Offer Price of HK\$5.80 per H Share
Our Company's H Share market capitalisation upon completion of the Global Offering ⁽¹⁾	HK\$1,581.4 million	HK\$1,834.4 million
Our Company's total market capitalisation upon completion of the Global Offering ⁽²⁾	HK\$5,750.4 million	HK\$6,670.5 million
Pro forma adjusted net tangible asset value per Share ⁽³⁾	HK\$3.55	HK\$3.74

(1) The calculation is based on 316,273,100 H Shares expected to be in issue following the completion of the Global Offering assuming the Over-allotment Option is not exercised.

(2) The calculation is based on 1,150,085,457 Shares expected to be in issue following the completion of the Global Offering assuming the Over-allotment Option is not exercised.

(3) Pro forma adjusted net tangible asset per Share has been arrived at after adjustments referred to in Appendix II.

DIVIDEND POLICY

After completion of the Global Offering, our Shareholders will be entitled to receive dividends declared by us. The proposal of payment and the amount of our dividends will be made at the discretion of our Board and will depend on our general business condition and strategies, cash flows, financial results and capital requirements, the interests of our Shareholders, taxation conditions, statutory and regulatory restrictions and other factors that our Board deems relevant. Any dividend distribution shall also be subject to the approval of our Shareholders in a Shareholders' meeting.

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Under the PRC Company Law and our Articles of Association, we will pay dividends out of our after-tax profit only after we have made the following allocations:

- recovery of accumulated losses, if any;
- allocations to the statutory reserve fund equivalent to 10% of our after-tax profit; and
- allocations, if any, to a discretionary reserve fund approved by the Shareholders in a Shareholders' meeting.

When the statutory reserve fund reaches and is maintained at or above 50% of our registered capital, no further allocations will be required. Our profit distributable for the above-mentioned allocations and our dividend distributions shall be paid out of our after-tax profit as determined by PRC GAAP or HKFRS, whichever is lower.

All of our Shareholders have equal rights to dividends and distributions in the form of stock or cash. For holders of our H Shares, cash dividend payments, if any, will be declared by our Board in Renminbi and paid in Hong Kong dollars.

SPECIAL DIVIDEND

Pursuant to a resolution passed at a Shareholders' meeting dated 1 November 2014, our Shareholders have resolved to declare a special distribution in the amount of RMB1.7 per 10 shares held by our Shareholders registered as at 31 December 2012. The total aggregate amount of the special dividend is RMB110.5 million and such amount was paid to Shareholders in December 2014. We paid the special dividend out of our internal resources. The holders of H Shares are not entitled to share in the special dividend. Our Shareholders registered as at 31 December 2012 were the only Shareholders entitled to the special dividend. In addition, any distributable profits available for distribution to our Shareholders after the Global Offering will exclude the special dividend. The special dividend is not an indication of our future dividend distribution policy or practice.

DISCLOSURE REQUIRED UNDER CHAPTER 13 OF THE LISTING RULES

Our Directors have confirmed that, as at the Latest Practicable Date, there were no circumstances which, had we been required to comply with Rules 13.13 to 13.19 in Chapter 13 of the Listing Rules, would have given rise to a disclosure requirement under Rules 13.13 to 13.19 of the Listing Rules.

NO MATERIAL ADVERSE CHANGE

Our Directors confirm that, up to the date of the prospectus, there has been no material adverse change in our financial or trading position since 31 December 2014 and there has been no event since 31 December 2014 which would materially affect the information shown in the Accountant's Report.

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UNAUDITED PRO FORMA ADJUSTED NET TANGIBLE ASSETS

The following is an illustrative and pro forma statement of our adjusted net tangible assets, which has been prepared on the basis of the notes set out below for the purpose of illustrating the effect of the Global Offering as if it had taken place on 31 December 2014. This unaudited pro forma statement of adjusted net tangible assets has been prepared for illustrative purposes only and because of its hypothetical nature, it may not give a true picture of our financial position had the Global Offering been completed as at 31 December 2014 or any future dates.

	Audited consolidated net tangible assets attributable to owners of our Company as at 31 December 2014⁽¹⁾	Estimated net proceeds from the Global Offering⁽²⁾	Unaudited pro forma adjusted consolidate net tangible assets attributable to owners of our Company as at 31 December 2014	Unaudited pro forma adjusted net tangible assets per Share⁽³⁾	
	<i>(RMB'000)</i>	<i>(RMB'000)</i>	<i>(RMB'000)</i>	<i>(RMB)</i>	<i>(HK\$)</i>
Based on the Offer Price of HK\$5.00 for each Offer Share	2,201,605	1,015,314	3,216,919	2.80	3.55
Based on the Offer Price of HK\$5.80 for each Offer Share	2,201,605	1,190,226	3,391,831	2.95	3.74

Notes:

- (1) The audited consolidated net tangible assets attributable to owners of our Company as at 31 December 2014 is extracted from the Accountant's Report, which is based on the audited consolidated net assets of our Group attributable to owners of our Company as at 31 December 2014 of RMB2,384,246,000 with an adjustment for the intangible assets as at 31 December 2014 of RMB182,641,000.
- (2) The estimated net proceeds from the Global Offering are based on the indicative Offer Price of HK\$5.00 and HK\$5.80 per H Share after deduction of the underwriting fees and other related expenses payable by the Company and takes no account of any shares which may fail to be issued upon the exercise of the Over-allotment Option or any Shares which may be granted and issued or repurchased by the Company.
- (3) The unaudited pro forma net tangible assets per Share is arrived at after the adjustments referred to in the preceding paragraphs and on the basis that 1,150,085,457 Shares were in issue assuming that the Global Offering has been completed on 31 December 2014 but takes no account of any Shares which may fail to be issued upon the exercise of the Over-allotment Option or any Shares which may be granted and issued or repurchased by the Company.

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SENSITIVITY ANALYSIS

Set out below is a sensitivity analysis of hypothetical fluctuations in our cost of sales (after deducting construction costs in relation to our BOT projects) and their effect on our net profit for each reporting period during the Track Record Period:

Percentage increase/ (decrease) in deducted cost of sales	For the years ended 31 December					
	2012		2013		2014	
	Changes in Net Profit	% Change in Net Profit	Changes in Net Profit	% Change in Net Profit	Changes in Net Profit	% Change in Net Profit
	(RMB'000)	(%)	(RMB'000)	(%)	(RMB'000)	(%)
20%	-21,023	-16.7	-35,760	-17.8	-88,081	-46.9
10%	-10,512	-8.3	-17,880	-8.9	-44,040	-23.4
0%	0	0	0	0	0	0
-10%	10,512	8.3	17,880	8.9	44,040	23.4
-20%	21,023	16.7	35,760	17.8	88,081	46.9

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT FINANCIAL RISK

We are exposed to various types of financial risks, including market risk (covering currency risk, fair value interest rate risk and cash flow interest rate risk), credit risk and liquidity risks. Our overall risk management focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on our financial performance.

Market risk

Foreign exchange risk

Our operations are in the PRC and most of our transactions are settled in RMB, which is our functional currency. However, we are subject to foreign exchange rate risk, as some of our borrowings are denominated in Euros. Such borrowings were granted by the World Bank to us for the purpose of supporting our development of wastewater treatment and water supply facilities. As at 31 December 2012, 2013 and 2014, our respective loan balance denominated in Euros was RMB31.7 million, RMB32.1 million and RMB27.0 million, respectively. We do not have a foreign currency hedging policy, and we manage our foreign currency risk by closely monitoring the scale of our foreign currency transactions and our foreign currency assets and

FINANCIAL INFORMATION

liabilities. If the Euro strengthens, a foreign exchange loss will be charged to us and our profit will be reduced, and vice versa. The following table sets out a sensitivity analysis of a 5% change in Euro against the RMB:

	As at 31 December		
	2012	2013	2014
	(RMB'000)	(RMB'000)	(RMB'000)
Net profit (decrease)/increase			
— Strengthened 5%	(1,248)	(1,277)	(1,109)
— Weakened 5%	<u>1,248</u>	<u>1,277</u>	<u>1,109</u>

Fair value and cash flow interest rate risk

We are subject to the risk of changes in market interest rates, primarily in relation to our long term borrowings with floating interest rates. We do not anticipate that there will be any significant impact resulting from changes in market interest rates because most of our borrowings during the Track Record Period were at fixed interest rates. We regularly review and monitor the relative portion of our fixed and floating interest rate borrowings in order to manage our interest rate risks. Our interest-bearing bank borrowings, pledge deposits and cash and cash equivalents are stated at amortised cost and not revalued on a periodic basis. Floating interest rate interest income and expenses are credited or charged to profit or loss as earned or incurred.

If there had been a general increase/decrease in market interest rates by one percentage point, with all other variables being held constant, our consolidated pre-tax profit would have decreased/increased by approximately RMB0.9 million, RMB0.8 million and RMB1.1 million for the years ended 2012, 2013 and 2014, respectively.

Credit risk

We are exposed to credit risk primarily in relation to our carrying amounts of cash and cash equivalents, trade and other receivables and receivables under service concession arrangements. For deposits with banks, we limit our exposure by selecting PRC-listed commercial banks or stated owned banks. We believe such banks are reputable and there is no significant credit risk of loss on our deposits. For trade receivables, our customers are primarily local governments and we believe that the credit risk is limited.

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Liquidity risk

The liquidity of our Group is primarily dependent on our ability to maintain adequate cash inflows from operations to meet debt obligations as they fall due and our ability to obtain external financing to meet committed future capital expenditures. We receive tariff payments for our BOT projects during the operation phase only, and for our BT projects, we only receive repurchase fees upon repurchase of the constructed facilities. As a result, we may not always be able to match cash inflows from our operations with our costs incurred during the construction phase of our BOT and BT projects, and any failure to do so may result in a liquidity gap requiring external financing. Our policy is to regularly monitor current and expected liquidity requirements by preparing and reviewing monthly cash flow forecasts and our compliance with lending covenants, if any, to ensure that we maintain sufficient reserves of cash on demand and adequate committed lines of funding from major financial institutions to meet our liquidity requirements in the short and longer terms.

No changes were made in the objectives, policies or processes for managing capital during the Track Record Period. With regard to our future capital commitments and other financing requirements, as at 31 March 2015, we had already obtained a general credit line of up to RMB1,981.6 million, of which approximately RMB660.0 million had not been utilised.

Our Directors have carried out a detailed review of our cash flow forecast for the period from 1 January 2015 to 30 June 2016. Based on the forecast, our Directors have determined that adequate liquidity exists to finance our working capital and capital expenditure requirements during such period. In preparing the cash flow forecast, our Directors have considered our historical cash requirements as well as other key factors, including cash flow generated from operating activities and the availability of the external loan financing which may impact our operations for such period. Our Directors are of the opinion that the assumptions and sensitivities which are included in the cash flow forecast are reasonable. However, these are subject to inherent limitations and uncertainties and some or all of these assumptions may not be realised.

FUTURE PLANS AND USE OF PROCEEDS

FUTURE PLANS

See “Business — Our Strategies” for a detailed discussion of our future plans.

USE OF PROCEEDS

We estimate that we will receive net proceeds of approximately HK\$1,397.9 million (US\$179.2 million) from the Global Offering, assuming that the Over-allotment Option is not exercised, after deducting the underwriting commissions and other estimated offering expenses payable by us and assuming the initial Offer Price of HK\$5.40 per H Share, being the mid-point of the indicative Offer Price range set out on the cover page of this prospectus.

We intend to use the net proceeds from the Global Offering for the purposes and in the amounts set out below:

- approximately 30%, or HK\$419.4 million (US\$53.8 million), is expected to be used to finance the acquisition of existing wastewater treatment projects to be identified by us, which will help us to enter into new markets and expand our project portfolio and treatment capacity. As at the Latest Practicable Date, we had neither entered into any letter of intent or agreement for such acquisition nor identified any definitive acquisition target;
- approximately 30%, or HK\$419.4 million (US\$53.8 million), is expected to be used for investing in and developing our new wastewater treatment and water supply projects in order to expand our market share in the PRC;
- approximately 30%, or HK\$419.4 million (US\$53.8 million), is expected to be used for repayment of portion of our current bank borrowings which were RMB400.0 million as at 31 March 2015 as follows:

Lender	Outstanding principal amount as at 31 March 2015	Interest Rate	Maturity Date	Use of Borrowings
Bank of China	RMB90.0 million	6.88%	30 December 2028	To finance the construction of Dali Wastewater Treatment Plant Phase II
Bank of China	RMB60.0 million	6.88%	30 December 2023	To finance the construction of Dali Water Supply Plant II Phase II
Bank of Communications	RMB50.0 million	6.30%	27 October 2015	To purchase wastewater treatment equipment
Bank of Communications	RMB100.0 million	6.05%	17 December 2015	To purchase wastewater treatment equipment
China Merchants Bank	RMB100.0 million	6.64%	31 July 2019	To finance the construction of Membrane Production Plant

FUTURE PLANS AND USE OF PROCEEDS

- approximately 10%, of HK\$139.8 million (US\$17.9 million), is expected to be used to fund our working capital and general corporate purposes.

The net proceeds that we will receive if the Over-allotment Option is exercised in full will be approximately HK\$1,622.4 million (US\$208.0 million)(assuming the Offer Price at the mid-point of the stated Offer Price range of HK\$5.40). If the Over-allotment Option is exercised in full, our Directors intend to apply all the additional net proceeds to increase our use of proceeds proportionately as reflected above.

In the event that the Offer Price is set at the high-end of the proposed Offer Price range and assuming the Over-allotment Option is not exercised at all, we will receive net proceeds of approximately HK\$1,508.7 million (US\$193.4 million). The additional net proceeds of approximately HK\$110.8 million (US\$14.2 million) (when compared to the net proceeds to us with the Offer Price being determined at the mid-point of the stated range and without exercising the Over-allotment Option) will be allocated to the above purposes on a pro rata basis. In the event that the Offer Price is set at the high-end of the proposed Offer Price range and the Over-allotment Option is exercised in full, we will receive net proceeds of approximately HK\$1,749.8 million (US\$224.3 million). The additional net proceeds of approximately HK\$351.9 million (US\$45.1 million) will be allocated to the above purposes on a pro rata basis.

In the event that the Offer Price is set at the low-end of the proposed Offer Price range and assuming the Over-allotment Option is not exercised at all, we will receive net proceeds of approximately HK\$1,287.0 million (US\$165.0 million). In the event that the Offer Price is set at the low-end of the proposed Offer Price range and the Over-allotment Option is exercised in full, we will receive net proceeds of approximately HK\$1,494.9 million (US\$191.7 million). Under such circumstances, the net proceeds allocated to the above purposes will be increased or reduced on a pro rata basis.

To the extent that the net proceeds to us from the Global Offering are not immediately applied to the above purposes, we will deposit the net proceeds into short-term demand deposits and/or money market instruments.

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HONG KONG UNDERWRITER

China Merchants Securities (HK) Co., Limited
48/F., One Exchange Square
Central
Hong Kong

HONG KONG UNDERWRITING ARRANGEMENTS

Hong Kong Public Offering

Hong Kong Underwriting Agreement

Pursuant to the Hong Kong Underwriting Agreement, our Company is offering initially 28,754,000 Hong Kong Offer Shares (subject to adjustment) for subscription by way of the Hong Kong Public Offering at the Offer Price on and subject to the terms and conditions of this prospectus and the Application Forms.

Subject to the Listing Committee of the Stock Exchange granting listing of, and permission to deal in, the H Shares to be issued pursuant to the Global Offering (including any H Shares which may be issued pursuant to the exercise of the Over-allotment Option) as mentioned herein and to certain other conditions set out in the Hong Kong Underwriting Agreement, the Hong Kong Underwriter has agreed to subscribe or procure subscriptions for the Hong Kong Offer Shares now being offered but which are not taken up under the Hong Kong Public Offering on and subject to the terms and conditions of this prospectus, the Application Forms and the Hong Kong Underwriting Agreement.

The Hong Kong Underwriting Agreement is conditional on and subject to, among other things, the International Underwriting Agreement having been signed and becoming unconditional.

Grounds for Termination

The Sole Global Coordinator may, in its sole and absolute discretion, terminate the Hong Kong Underwriting Agreement with immediate effect by giving a written notice to the Company if at any time prior to 8:00 a.m. on the Listing Date:

- (a) there has come to the notice of the Sole Global Coordinator:
 - (i) any breach of, or any event rendering untrue or incorrect, any of the Warranties (as defined in the Hong Kong Underwriting Agreement) or any breach by the Warrantors (as defined in the Hong Kong Underwriting Agreement) of any of the provisions of the Hong Kong Underwriting Agreement or the International Underwriting Agreement;

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- (ii) that any matter has arisen or has been discovered which would, had it arisen or been discovered immediately before the date of this prospectus, result in a misstatement in, or constitute an omission from, any of the Hong Kong Public Offering Documents (as defined in the Hong Kong Underwriting Agreement) and/or in any announcements, notices, advertisements, communications or other documents issued or used by or on behalf of the Company in connection with the Hong Kong Public Offering (including any supplement or amendment thereto);
- (iii) that any statement contained in any of the Hong Kong Public Offering Documents and/or in any announcements, notices, advertisement, communications or other documents issued or used by or on behalf of the Company in connection with the Hong Kong Public Offering (including any supplement or amendment thereto) was, when it was issued, or has become, untrue, incorrect or misleading in any respect, or that any estimate, forecast, expression of opinion, intention or expectation contained in any of such documents is not fair or honest, and not based on reasonable assumptions;
- (iv) any event, act or omission which gives or is likely to give rise to any liability of any of the Warrantors pursuant to the Hong Kong Underwriting Agreement;
- (v) any material adverse change or development involving a prospective material adverse change in the assets, liabilities, business, general affairs, management, prospects, shareholders' equity, profits, losses, results of operations, condition or position, financial or otherwise, or the performance of the Group as a whole;
- (vi) that the Company withdraws this prospectus (and/or any other documents issued or used in connection with the Global Offering) or the Global Offering;
- (vii) the experts referred to in "Statutory and General Information — Other Information — Consents of Experts" (other than the Sole Sponsor) has withdrawn or sought to withdraw its consent to being named in any of the Offering Documents (as defined in the Hong Kong Underwriting Agreement) the issue of the any of the Offering Documents;
- (viii) any non-compliance of this prospectus (or any other documents issued or used in connection with the Global Offering) or any aspect of the Global Offering with the Listing Rules or any other applicable Law (as defined in the Hong Kong Underwriting Agreement);
- (ix) any order or petition for the winding up of any member of the Group or any composition or arrangement made by any member of the Group with its creditors or a scheme of arrangement entered into by any member of the Group or any resolution for the winding up of any member of the Group or the appointment of a provisional liquidator, receiver or manager over all or part of the material assets or undertaking of any member of the Group or anything analogous thereto occurring in respect of any member of the Group;

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- (x) any actions, suits, claims (whether or not any such claim involves or results in any actions or proceedings), demands, investigations, judgment, awards and proceedings (each an “**Action**”), joint or several, from time to time instituted, made or brought against any member of the Group;
 - (xi) any Director being charged with an indictable offence or prohibited by operation of Law or otherwise disqualified from taking part in the management of a company;
 - (xii) any Authority (as defined in the Hong Kong Underwriting Agreement) or political body or organisation commencing any Action, or announcing an intention to investigate or take any Action, against any Director;
 - (xiii) any prohibition on the Company for whatever reason from offering, allotting, issuing or selling any of the Offer Shares pursuant to the terms of the Global Offering;
 - (xiv) the chairman of the Company vacating his office;
 - (xv) any material contravention by any member of the Group of the Listing Rules or application Laws; or
 - (xvi) that the Company is required to produce or issue a supplement or amendment to this prospectus (or to any other documents issued or used in connection with the Global Offering) pursuant to the Companies Ordinance, the Companies (WUMP) Ordinance or the Listing Rules or any requirement or request of the Stock Exchange and/or the SFC; or
- (b) there develops, occurs, exists or comes into force:
- (i) any change or development involving a prospective change, or any event or series of events likely to result in any change or development involving a prospective change, in local, national, regional or international financial, political, economic, military, industrial, fiscal, regulatory, currency, credit or market conditions or equity securities or stock or other financial market conditions or any monetary or trading settlement system (including, without limitation, any change in the system under which the value of the Hong Kong currency is linked to that of the United States) in Hong Kong, the U.S., the PRC, the United Kingdom, the European Union (or any members thereof) or Japan (each a “**Relevant Jurisdiction**”);

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- (ii) any new Law or any change or development involving a prospective change in existing Laws or any change or development involving a prospective change in the interpretation or application thereof by any Authority in or affecting any Relevant Jurisdiction;
- (iii) any event or series of events, in the nature of force majeure in or affecting any Relevant Jurisdiction including, without limiting the generality thereof, any act of God, war, outbreak or escalation of hostilities (whether or not war is declared), act of terrorism, act of government, declaration of a national or international emergency or war, riot, public disorder, civil commotion, volcanic eruptions, earthquake, economic sanctions, fire, flood, explosion, epidemic, pandemic, outbreak or escalation of an infectious disease, calamity, crisis, labour disputes, strike or lock-out (whether or not covered by insurance);
- (iv) the imposition of any moratorium, suspension or restriction on trading in securities (including, without limitation, any imposition of or requirement for any minimum or maximum price limit or price range) generally on the Stock Exchange, the New York Stock Exchange, the NASDAQ Global Market, the Shanghai Stock Exchange, the Shenzhen Stock Exchange, the London Stock Exchange or any suspension of trading of any of the securities of the Company on any exchange or over-the-counter market or any general moratorium on or disruption of any foreign exchange trading or securities settlement or clearing services in or affecting any Relevant Jurisdiction or on commercial banking activities in or affecting any Relevant Jurisdiction; or
- (v) any change or development involving a prospective change in taxation, exchange control (or the implementation of any exchange control), currency exchange rates or foreign investment regulations (including without limitation a devaluation of the Hong Kong dollar, the Renminbi, the United States dollar, the Euro, the Japanese yen or the British pound sterling against any foreign currencies and any disruptions in monetary, trading or securities settlement or clearance services, procedures or matters) in any Relevant Jurisdiction;

which, individually or in the aggregate, in the sole opinion of the Sole Global Coordinator: (a) has or will or is likely to result in a Material Adverse Change (as defined in the Hong Kong Underwriting Agreement); or (b) has or will have or is likely to have a material adverse impact on the success of the Global Offering or the level of Offer Shares applied for or accepted or subscribed for or purchased or the distribution of the Offer Shares or dealings in the H Shares in the secondary market; or (c) makes or will make or is likely to make it impracticable, inadvisable or inexpedient to proceed with the Global Offering on the terms and in the manner contemplated in the Offering Documents; or (d) has or will or is likely to have the effect of making any part of the Hong Kong Underwriting Agreement (including underwriting) incapable of performance in accordance with its terms or preventing the processing of applications and/or payments pursuant to the Global Offering or pursuant to the underwriting thereof.

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UNDERTAKINGS TO THE STOCK EXCHANGE PURSUANT TO THE LISTING RULES

Undertakings by Our Company

Pursuant to Rule 10.08 of the Listing Rules, we have undertaken to the Stock Exchange that, no further Shares or securities convertible into our equity securities (whether or not of a class already listed) may be issued by us or form the subject of any agreement to such an issue within six months from the Listing Date (whether or not such issue of Shares or our securities will be completed within six months from the commencement of dealing), except pursuant to the Global Offering (including the exercise of the Over-allotment Option) or in certain circumstances prescribed by Rule 10.08 of the Listing Rules.

Undertakings by the Controlling Shareholders

Pursuant to Rule 10.07 of the Listing Rules, each of (i) Yunnan Province Water and the Acting in Concert Parties and (ii) YMCI has undertaken to the Stock Exchange and to our Company that, except pursuant to the Global Offering (including the exercise of the Over-allotment Option), it/he will not and shall procure that the relevant registered holder(s) will not, without the prior written consent of the Stock Exchange and unless in compliance with the requirements of the Listing Rules:

- (a) in the period commencing on the date by reference to which disclosure of its/his shareholding in our Company is made in this prospectus and ending on the date which is six months from the date on which dealings in our H Shares commence on the Stock Exchange, 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 it/he is shown by this prospectus to be the beneficial owner; and
- (b) in the period of six months commencing on the date on which the period referred to in paragraph (a) above expires, 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 paragraph (a) above if, immediately following such disposal or upon the exercise or enforcement of such options, rights, interests or encumbrances, it/he would then cease to be a controlling shareholder of our Company for the purposes of the Listing Rules.

Beijing OriginWater has undertaken to the Stock Exchange and to our Company that, except pursuant to the Global Offering (including the exercise of the Over-allotment Option), it will not and shall procure that the relevant registered holder(s) will not, without the prior written consent of the Stock Exchange and unless in compliance with the requirements of the Listing Rules, in the period commencing on the date by reference to which disclosure of its shareholding in our Company is made in this prospectus and ending on the date which is 12

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months from the date on which dealings in our H Shares commence on the Stock Exchange, 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 it is shown by this prospectus to be the beneficial owner.

Pursuant to Note (3) to Rule 10.07(2) of the Listing Rules, each of the Controlling Shareholders has further undertaken to the Stock Exchange and to our Company that within the period commencing on the date by reference to which disclosure of its/his shareholding is made in this prospectus and ending on the date which is 12 months from the Listing Date, it/he will:

- (a) when it/he pledges or charges any securities of our Company or interests therein beneficially owned by it/him in favour of any authorised institution pursuant to Note 2 to Rule 10.07(2) of the Listing Rules, immediately inform our Company of such pledge or charge together with the number of securities so pledged or charged; and
- (b) when it/he receives indications, either verbal or written, from the pledgee or charges that any of the securities of our Company pledged or charged will be disposed of, immediately inform our Company of such indications.

We will also inform the Stock Exchange as soon as we have been informed of the above matters (if any) by any of the Controlling Shareholders and disclose such matters in accordance with the publication requirements under Rule 2.07C of the Listing Rules as soon as possible after being so informed by any of the Controlling Shareholders.

UNDERTAKINGS PURSUANT TO THE HONG KONG UNDERWRITING AGREEMENT

Undertakings by Our Company

Except for the offer of the Offer Shares pursuant to the Global Offering (including pursuant to the exercise of the Over-allotment Option), during the period commencing on the date of the Hong Kong Underwriting Agreement and ending on, and including, the date that is six months after the Listing Date (the “**First Six-Month Period**”), we have undertaken to each of the Sole Global Coordinator, the Sole Sponsor, the Sole Bookrunner and the Hong Kong Underwriter not to, and to procure each other member of our Group not to, without the prior written consent of the Sole Sponsor and the Sole Global Coordinator and unless in compliance with the requirements of the Listing Rules:

- (a) allot, issue, sell, accept subscription for, offer to allot, issue or sell, contract or agree to allot, issue or sell, mortgage, charge, pledge, hypothecate, lend, grant or sell any option, warrant, contract or right to subscribe for or purchase, grant or purchase any option, warrant, contract or right to allot, issue or sell, or otherwise transfer or dispose of or create an Encumbrance (as defined in the Hong Kong Underwriting Agreement) over, or agree to transfer or dispose of or create an Encumbrance over, either directly or indirectly, conditionally or unconditionally, any Shares or any other securities of our Company or any shares, capital or other securities of such other

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member of our Group, as applicable, or any interest in any of the foregoing (including, without limitation, any securities convertible into or exchangeable or exercisable for or that represent the right to receive, or any warrants or other rights to purchase, any Shares or any shares or capital of such other member of our Group, as applicable); or

- (b) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of any Shares or other securities of our Company or any shares, capital or other securities of such other member of our Group, as applicable, or any interest in any of the foregoing (including, without limitation, any securities convertible into or exchangeable or exercisable for or that represent the right to receive, or any warrants or other rights to purchase, any Shares or any shares or capital of such other member of our Group, as applicable); or
- (c) enter into any transaction with the same economic effect as any transaction specified in paragraphs (a) or (b) above; or
- (d) offer to or agree to or announce any intention to effect any transaction specified in paragraphs (a), (b) or (c) above,

in each case, whether any of the transactions specified in paragraphs (a), (b) or (c) above is to be settled by delivery of Shares or other securities of our Company or shares, capital or other securities of such other member of our Group, as applicable, or in cash or otherwise (whether or not the issue of such Shares or other shares or securities will be completed within the First Six-month Period). In the event that, during the period of six months commencing on the date on which the First Six-month Period expires (the **“Second Six-Month Period”**), our Company enters into any of the transactions specified in paragraphs (a), (b) or (c) above or offers to or agrees to or announces any intention to effect any such transaction, our Company shall take all reasonable steps to ensure that it will not create a disorderly or false market in the securities of our Company.

Undertakings by the Controlling Shareholders

Undertakings by the Controlling Shareholders (except Beijing OriginWater)

Each of the Controlling Shareholders (except Beijing OriginWater) has undertaken to each of our Company, the Sole Global Coordinator, the Sole Sponsor, the Sole Bookrunner and the Hong Kong Underwriter not to, and to procure its/his subsidiaries and associates not to, without the prior written consent of the Sole Sponsor and Sole Global Coordinator and unless in compliance with the requirements of the Listing Rules:

- (a) at any time during the First Six-Month Period,
 - (i) sell, offer to sell, contract or agree to sell, mortgage, charge, pledge, hypothecate, lend, grant or sell any option, warrant, contract or right to

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purchase, grant or purchase any option, warrant, contract or right to sell, or otherwise transfer or dispose of or create an Encumbrance over, or agree to transfer or dispose of or create an Encumbrance over, either directly or indirectly, conditionally or unconditionally, any Shares or other securities of our Company or any interest therein or voting right or any other right attaching thereto (including, without limitation, any securities convertible into or exchangeable or exercisable for or that represent the right to receive, or any warrants or other rights to purchase, any Shares), or

- (ii) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of any Shares or other securities of our Company or any interest therein (including, without limitation, any securities convertible into or exchangeable or exercisable for or that represent the right to receive, or any warrants or other rights to purchase, any Shares), or
- (iii) enter into any transaction with the same economic effect as any transaction specified in paragraphs (i) or (ii) above, or
- (iv) offer to or agree to or announce any intention to effect any transaction specified in paragraphs (i), (ii) or (iii) above,

in each case, whether any of the transactions specified in paragraphs (i), (ii) or (iii) above is to be settled by delivery of Shares or other securities of our Company, as applicable, or in cash or otherwise (whether or not the issue of such Shares or other securities will be completed within the First Six-Month Period);

- (b) at any time during the Second Six-Month Period, enter into any of the transactions specified in paragraphs (i), (ii) or (iii) above or offer to or agree to or announce any intention to effect any such transaction if, immediately following any sale, transfer or disposal or upon the exercise or enforcement of any option, right, interest or Encumbrance pursuant to such transaction, it/he will cease, whether individually or collectively with the other Controlling Shareholders, to be a Controlling Shareholder; and
- (c) until the expiry of the Second Six-Month Period, in the event that it/he enters into any of the transactions specified in paragraphs (i), (ii) or (iii) above or offers to or agrees to or announces any intention to effect any such transaction, it/he will take all reasonable steps to ensure that it/he will not create a disorderly or false market in the securities of our Company.

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Undertakings by Beijing OriginWater

Beijing OriginWater has undertaken to each of our Company, the Sole Global Coordinator, the Sole Sponsor, the Sole Bookrunner and the Hong Kong Underwriter and not to, and to procure its subsidiaries and associates not to, without the prior written consent of the Sole Sponsor and Sole Global Coordinator and unless in compliance with the requirements of the Listing Rules:

- (a) at any time during the First Six-Month Period and the Second Six-Month Period,
 - (i) sell, offer to sell, contract or agree to sell, mortgage, charge, pledge, hypothecate, lend, grant or sell any option, warrant, contract or right to purchase, grant or purchase any option, warrant, contract or right to sell, or otherwise transfer or dispose of or create an Encumbrance over, or agree to transfer or dispose of or create an Encumbrance over, either directly or indirectly, conditionally or unconditionally, any Shares or other securities of our Company or any interest therein or voting right or any other right attaching thereto (including, without limitation, any securities convertible into or exchangeable or exercisable for or that represent the right to receive, or any warrants or other rights to purchase, any Shares), or
 - (ii) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of any Shares or other securities of our Company or any interest therein (including, without limitation, any securities convertible into or exchangeable or exercisable for or that represent the right to receive, or any warrants or other rights to purchase, any Shares), or
 - (iii) enter into any transaction with the same economic effect as any transaction specified in paragraphs (i) or (ii) above, or
 - (iv) offer to or agree to or announce any intention to effect any transaction specified in paragraphs (a), (b) or (c) above,

in each case, whether any of the transactions specified in paragraphs (a), (b) or (c) above is to be settled by delivery of Shares or other securities of our Company, as applicable, or in cash or otherwise (whether or not the issue of such Shares or other securities will be completed within the First Six-Month Period); and

- (b) until the expiry of the Second Six-Month Period, in the event that it enters into any of the transactions specified in paragraphs (a), (b) or (c) above or offers to or agrees to or announces any intention to effect any such transaction, it will take all reasonable steps to ensure that it will not create a disorderly or false market in the securities of our Company.

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Indemnity

We have agreed to indemnify, among others, the Sole Global Coordinator, the Sole Sponsor, the Sole Bookrunner, the Sole Lead Manager and the Hong Kong Underwriter for certain losses which they may suffer, including, among other things, losses arising from the performance of their obligations under the Hong Kong Underwriting Agreement and any breach by us of the Hong Kong Underwriting Agreement.

INTERNATIONAL OFFERING

International Underwriting Agreement

In connection with the International Offering, it is expected that we will enter into the International Underwriting Agreement with the International Underwriter and the Sole Global Coordinator. Under the International Underwriting Agreement, the International Underwriter, subject to certain conditions set out therein, will agree to procure subscribers or purchasers for the International Offer Shares, failing which it agrees to subscribe for or purchase the International Offer Shares which are not taken up under the International Offering.

We expect to grant the Over-allotment Option to the International Underwriter and exercisable by the Sole Global Coordinator on or before Wednesday, 17 June 2015, being the 30th day from the last day for the lodging of Application Forms under the Hong Kong Public Offering, to require us to issue and allot up to an aggregate of 43,128,000 Offer Shares, representing in aggregate 15% of the Offer Shares initially available under the Global Offering at the Offer Price to cover, among other things, over-allocations, if any, in the International Offering.

COMMISSION AND EXPENSES

The Hong Kong Underwriter will receive an underwriting commission of 3.0% of the aggregate Offer Price payable for the Hong Kong Offer Shares initially offered under the Hong Kong Public Offering. For unsubscribed Hong Kong Offer Shares reallocated to the International Offering, we will pay an underwriting commission at the rate applicable to the International Offering and such commission will be paid to the International Underwriter. Our Company may also in its sole discretion pay the Sole Global Coordinator an additional incentive fee of up to 0.6% of the aggregate of the sale proceeds of the Offer Shares under the Global Offering (including pursuant to the exercise of the Over-allotment Option).

The aggregate commissions and fees (including the discretionary incentive fee), together with the listing fees, SFC transaction levy, the Stock Exchange trading fee, legal and other professional fees, printing and other expenses payable by us relating to the Global Offering are estimated to amount to approximately RMB122.1 million in total (based on the mid-point of our indicative price range of the Global Offering and assuming the Over-allotment Option is not exercised).

UNDERWRITING

HONG KONG UNDERWRITER'S INTERESTS IN OUR COMPANY

Save as disclosed in this prospectus and other than its obligations pursuant to the Hong Kong Underwriting Agreement, the Hong Kong Underwriter does not have any shareholding in any member of the Group or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

Following the completion of the Global Offering, the Hong Kong Underwriter and its affiliates may hold a certain portion of the H Shares as a result of fulfilling their obligations under the Hong Kong Underwriting Agreement and/or the International Underwriting Agreement.

RESTRICTIONS ON THE OFFER SHARES

No action has been taken to permit a public offering of the Offer Shares other than in Hong Kong, or the distribution of this prospectus 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.

In particular, the Offer Shares have not been offered or sold, and will not be offered or sold, directly or indirectly, in the PRC.

SOLE SPONSOR'S INDEPENDENCE

The Sole Sponsor satisfies the independence criteria set out in Rule 3A.07 of the Listing Rules.

ACTIVITIES BY THE UNDERWRITER

The Underwriter and its affiliates may each individually undertake a variety of activities (as further described below) which do not form part of the underwriting or stabilising process.

The Underwriter and its 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 the ordinary course of their various business activities, the Underwriter or its respective affiliates may purchase, sell or hold a broad array of investments and actively trade securities, derivatives, loans, commodities, currencies, credit default swaps and other financial instruments for their own account and for the accounts of their customers. Such investment and trading activities may involve or relate to assets, securities and/or instruments of the Company and/or persons and entities in relation with the Company and may also include swaps and other financial instruments entered into for hedging purposes in connection with the Group's loans and other debt.

UNDERWRITING

In relation to the H Shares, the activities of the Underwriter or its affiliates could include acting as agent for buyers and sellers of the H Shares, entering into transactions with those buyers and sellers in a principal capacity, including as a lender to initial purchasers of the H Shares (the financing of which may be secured by the H Shares) in the Global Offering, proprietary trading in the H Shares, and entering into over the counter or listed derivative transactions or listed or unlisted securities transactions (including issuing securities such as derivative warrants listed on a stock exchange) which have as their underlying assets, assets including the H Shares. Such transactions may be carried out as bilateral agreements or trades with selected counterparties. Those activities may require hedging activity by those entities involving, directly or indirectly, the buying and selling of the H Shares, which may have a negative impact on the trading price of the H Shares. All such activities could occur in Hong Kong and elsewhere in the world and may result in the Underwriter or its affiliates holding long and/or short positions in the H Shares, in baskets of securities or indices including the H Shares, in units of funds that may purchase the H Shares, or in derivatives related to any of the foregoing.

In relation to issues by the Underwriter or its affiliates of any listed securities having the H Shares as their underlying securities, whether on the Stock Exchange or on any other stock exchange, the rules of the stock 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 H Shares in most cases.

All such activities may occur both during and after the end of the stabilising period as described in “Structure of the Global Offering”. Such activities may affect the market price or value of the H Shares, the liquidity or trading volume in the H Shares and the volatility of the price of the H Shares, and the extent to which this occurs from day to day cannot be estimated.

It should be noted that when engaging in any of these activities, the Underwriter or its affiliates will be subject to certain restrictions, including the following:

- (a) the Underwriter or its affiliates (other than the Stabilising Manager or any person acting for it) must not, in connection with the distribution of the Offer Shares, effect any transactions (including issuing or entering into any option or other derivative transactions relating to the Offer Shares), whether in the open market or otherwise, with a view to stabilising or maintaining the market price of any of the Offer Shares at levels other than those which might otherwise prevail in the open market; and
- (b) the Underwriter or its affiliates must comply with all applicable laws and regulations, including the market misconduct provisions of the SFO which includes the provisions prohibiting insider dealing, false trading, price rigging and stock market manipulation.

The Underwriter or its affiliates have provided from time to time, and expect to provide in the future, investment banking, derivative and other services to us, our affiliates or our Shareholders including cornerstone investors, for which the Underwriter or its affiliates have received or will receive customary fees and commissions.

STRUCTURE OF GLOBAL OFFERING

THE GLOBAL OFFERING

This prospectus is published in connection with the Hong Kong Public Offering as part of the Global Offering. China Merchants Securities (HK) Co., Limited is the Sole Global Coordinator and the Sole Bookrunner.

The Global Offering consists of (subject to adjustment and the Over-allotment Option):

- (i) the Hong Kong Public Offering of 28,754,000 Offer Shares (subject to adjustment as mentioned below) in Hong Kong as described in “The Hong Kong Public Offering”; and
- (ii) the International Offering of 258,767,000 Offer Shares (subject to adjustment as mentioned below) outside the United States (including to professional and institutional investors within Hong Kong) in offshore transactions in reliance on Regulation S.

The Offer Shares will represent approximately 25.0% of the enlarged issued share capital of the Company immediately after completion of the Global Offering without taking into account the exercise of the Over-allotment Option. If the Over-allotment Option is exercised in full, the Offer Shares will represent approximately 27.7% of the enlarged issued share capital immediately after completion of the Global Offering and the exercise of the Over-allotment Option as set out in “The International Offering — Over-allotment Option”.

Investors may apply for the Hong Kong Offer Shares under the Hong Kong Public Offering or apply for or indicate an interest, if qualified to do so, for the International Offer Shares under the International Offering, but may not do both. The Hong Kong Public Offering is open to members of the public in Hong Kong as well as to institutional and professional investors. Professional investors generally include brokers, dealers, companies (including fund managers) whose ordinary business involves dealing in shares and other securities and corporate entities which regularly invest in shares and other securities. The International Offering will involve selective marketing of the International Offer Shares to institutional and professional investors and other investors expected to have a sizeable demand for the International Offer Shares in Hong Kong and other jurisdictions outside the United States in reliance on Regulation S. The International Underwriter is soliciting from prospective investors’ indications of interest in acquiring the International Offer Shares. Prospective investors will be required to specify the number of International Offer Shares under the International Offering they would be prepared to acquire either at different prices or at a particular price.

The number of Hong Kong Offer Shares and International Offer Shares to be offered under the Hong Kong Public Offering and the International Offering respectively may be subject to reallocation as described in “The Hong Kong Public Offering — Reallocation and Clawback”.

STRUCTURE OF GLOBAL OFFERING

THE HONG KONG PUBLIC OFFERING

Number of Shares Initially Offered

Our Company is initially offering 28,754,000 Offer Shares at the Offer Price under the Hong Kong Public Offering, representing 10 % of the total number of Offer Shares initially available under the Global Offering, for subscription by the public in Hong Kong. Subject to adjustment as mentioned below, the number of Offer Shares initially offered under the Hong Kong Public Offering will represent 2.5% of our enlarged issued share capital immediately after completion of the Global Offering, assuming that the Over-allotment Option is not exercised.

In Hong Kong, individual retail investors are expected to apply for the Hong Kong Offer Shares through the Hong Kong Public Offering and individual retail investors, including individual investors in Hong Kong applying through banks and other institutions, seeking International Offer Shares will not be allotted International Offer Shares in the International Offering.

The Sole Global Coordinator and the Sole Sponsor may require any investor who has been offered Offer Shares under the International Offering, and who has made an application under the Hong Kong Public Offering to provide sufficient information to the Sole Global Coordinator and the Sole Sponsor so as to allow it to identify the relevant applications under the Hong Kong Public Offering and to ensure that it is excluded from any application for the Hong Kong Offer Shares.

Allocation

For allocation purposes only, the total number of Offer Shares initially being offered for subscription under the Hong Kong Public Offering (after taking into account any adjustment in the number of Offer Shares allocated between the Hong Kong Public Offering and the International Offering) will be divided equally into two pools (subject to adjustment at odd lot size): Pool A comprising 14,377,000 Hong Kong Offer Shares and Pool B comprising 14,377,000 Hong Kong Offer Shares, both of which are available on an equitable basis to successful applicants. All valid applications that have been received for the Hong Kong Offer Shares with a total subscription amount (excluding brokerage, SFC transaction levy and the Stock Exchange trading fee) of HK\$5 million or below will fall into Pool A and all valid applications that have been received for the Hong Kong Offer Shares with a total subscription amount (excluding brokerage, SFC transaction levy and Stock Exchange trading fee) of over HK\$5 million and up to the total value of Pool B, will fall into Pool B.

Applicants should be aware that applications in Pool A and Pool B may receive different allocation ratios. If the Hong Kong Offer Shares in one pool (but not both pools) are under-subscribed, the surplus Hong Kong Offer Shares will be transferred to the other pool to satisfy demand in that other pool and be allocated accordingly. Applicants can only receive an allocation of the Hong Kong Offer Shares from either Pool A or Pool B but not from both pools and only apply for the Hong Kong Offer Shares in either Pool A or Pool B. When there is

STRUCTURE OF GLOBAL OFFERING

over-subscription, allocation of the Hong Kong Offer Shares to investors under the Hong Kong Public Offering, both in relation to Pool A and Pool B, will be based on the level of valid applications received under the Hong Kong Public Offering. The basis of allocation in each pool may vary, depending on the number of Hong Kong Offer Shares validly applied for by each applicant. The allocation of Hong Kong Offer Shares could, where appropriate, consist of balloting, which would mean that some applicants may receive a higher allocation than others who have applied for the same number of Hong Kong Offer Shares and those applicants who are not successful in the ballot may not receive any Hong Kong Offer Shares.

Reallocation and Clawback

The allocation of Offer Shares between the Hong Kong Public Offering and the International Offering is subject to adjustment. If the number of Offer Shares validly applied for in the Hong Kong Public Offering represents (i) 15 times or more but less than 50 times, (ii) 50 times or more but less than 100 times, and (iii) 100 times or more, of the number of Hong Kong Offer Shares initially available under the Hong Kong Public Offering, the total number of Hong Kong Offer Shares available under the Hong Kong Public Offering will be increased to 86,258,000, 115,010,000 and 143,762,000 Offer Shares, respectively, representing 30% (in the case of (i)), 40% (in the case of (ii)) and 50% (in the case of (iii)), respectively, of the total number of Offer Shares initially available under the Global Offering (before any exercise of the Over-allotment Option), and such reallocation being referred to in this prospectus as “Mandatory Reallocation”. In such cases, the number of Offer Shares allocated in the International Offering will be correspondingly reduced, in such manner as the Sole Global Coordinator and the Sole Sponsor deems appropriate, and such additional Offer Shares will be reallocated to Pool A and Pool B. If the Hong Kong Offer Shares are not fully subscribed, the Sole Global Coordinator and the Sole Sponsor have the authority to reallocate all or any unsubscribed Hong Kong Offer Shares to the International Offering, in such proportions as the Sole Global Coordinator and the Sole Sponsor deems appropriate. In addition to any Mandatory Reallocation which may be required, the Sole Global Coordinator and the Sole Sponsor may, at their discretion, reallocate Shares initially allocated for the International Offering to the Hong Kong Public Offering to satisfy valid applications in Pool A and Pool B under the Hong Kong Public Offering, regardless of whether the Mandatory Reallocation is triggered.

Applications

Each applicant under the Hong Kong Public Offering will also be required to give an undertaking and confirmation in the Application Form submitted by him that he and any person(s) for whose benefit he is making the application have not applied for or taken up, or indicated an interest for, and will not apply for or take up, or indicate an interest for, any Offer Shares under the International Offering, and such applicant's application is liable to be rejected if the said undertaking and/or confirmation is breached and/or untrue (as the case may be) or it has been or will be placed or allocated Offer Shares under the International Offering.

STRUCTURE OF GLOBAL OFFERING

Multiple or suspected multiple applications and any application for more than 50% of the total number of the Offer Shares initially comprised in the Hong Kong Public Offering (that is 14,377,000 Hong Kong Offer Shares) are liable to be rejected.

The listing of the Offer Shares on the Stock Exchange is sponsored by the Sole Sponsor. Applicants under the Hong Kong Public Offering are required to pay, on application, the maximum price of HK\$5.80 per Offer Share in addition to any brokerage, SFC transaction levy and Stock Exchange trading fee payable on each Offer Share. If the Offer Price, as finally determined in the manner described in “Pricing of the Global Offering” below, is less than the maximum price of HK\$5.80 per Offer Share, appropriate refund payments (including the brokerage, SFC transaction levy and Stock Exchange trading fee attributable to the surplus application monies) will be made to successful applicants, without interest. Further details are set out below in “How to Apply for Hong Kong Offer Shares”.

References in this prospectus to applications, Application Forms, application monies or the procedure for application relate solely to the Hong Kong Public Offering.

THE INTERNATIONAL OFFERING

Number of International Offer Shares

The number of International Offer Shares to be initially offered for subscription under the International Offering will consist of 258,767,000 Offer Shares, representing 90% of the Offer Shares under the Global Offering. Subject to any reallocation of Offer Shares between the International Offering and the Hong Kong Public Offering, the International Offer Shares will represent approximately 22.5% of our enlarged issued share capital immediately after completion of the Global Offering assuming that the Over-allotment Option is not exercised.

Allocation

Pursuant to the International Offering, the International Underwriter will conditionally place the International Offer Shares with institutional and professional investors and other investors expected to have a sizeable demand for the Shares in Hong Kong and other jurisdictions outside the United States in reliance on Regulation S. The International Offering is subject to the Hong Kong Public Offering being unconditional.

Allocation of the International Offer Shares pursuant to the International Offering will be determined by the Sole Global Coordinator and will be based on a number of factors including the level and timing of demand, 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 relevant investor is likely to buy further, and/or hold or sell the Offer Shares after the Listing. Such allocation may be made to professional, institutional and corporate investors and is intended to result in a distribution of the Offer Shares on a basis which would lead to the establishment of a solid shareholder base to the benefit of our Company and our Shareholders as a whole.

STRUCTURE OF GLOBAL OFFERING

Reallocation

The total number of International Offer Shares to be offered pursuant to the International Offering may change as a result of the clawback arrangement described in “The Hong Kong Public Offering — Reallocation and Clawback”, exercise of the Over-allotment Option in whole or in part and/or reallocation of all or any unsubscribed Hong Kong Offer Shares to the International Offering.

Over-allotment Option

In connection with the Global Offering, our Company is expected to grant an Over-allotment Option to the International Underwriter, exercisable by the Sole Global Coordinator at its sole and absolute discretion at any time within 30 days after the last day for lodging applications under the Hong Kong Public Offering. Pursuant to the Over-allotment Option, the Sole Global Coordinator will have the right to require our Company to issue and allot up to an aggregate of 43,128,000 Offer Shares representing in aggregate approximately 15% of the initial number of the Offer Shares at the Offer Price to cover, among other things, over-allocations in the International Offering, if any. An announcement will be made in the event that the Over-allotment Option is exercised. The Sole Global Coordinator may also cover any over-allocations by purchasing Shares in the secondary market or by a combination of purchases in the secondary market and a partial exercise of the Over-allotment Option. Any such secondary market purchase will be made in compliance with all applicable laws, rules and regulations.

PRICING OF THE GLOBAL OFFERING

The International Underwriter will be soliciting from prospective investors indications of interest in acquiring Offer Shares in the International Offering. Prospective professional and institutional investors will be required to specify the number of Offer Shares under the International Offering they would be prepared to acquire either at different prices or at a particular price. This process, known as “book-building” is expected to continue up to, and to cease on or around, the last day for lodging applications under the Hong Kong Public Offering.

The Offer Price is expected to be fixed by agreement between the Sole Global Coordinator and us on the Price Determination Date. The Price Determination Date is expected to be on or around Monday, 18 May 2015 and, in any event, not later than Tuesday, 26 May 2015. The Offer Price will be not more than HK\$5.80 and is currently expected not to be less than HK\$5.00, unless otherwise announced as further explained below, not later than the morning of the last day for lodging applications under the Hong Kong Public Offering. **Prospective investors should be aware that the Offer Price to be determined on the Price Determination Date may be, but is not expected to be, lower than the indicative Offer Price range stated in this prospectus.**

STRUCTURE OF GLOBAL OFFERING

If, for any reason, the Offer Price is not agreed by Tuesday, 26 May 2015 between the Sole Global Coordinator and us, the Global Offering will not proceed and will lapse.

If, based on the level of interest expressed by prospective institutional, professional and other investors during the book-building process, the Sole Global Coordinator considers it appropriate, the number of Offer Shares being offered under the Global Offering and/or the indicative Offer Price range may be reduced below that stated in this prospectus at any time on or prior to the morning of the last day for lodging applications under the Hong Kong Public Offering. In such a case, we will, as soon as practicable following the decision to make such reduction, and in any event not later than the morning of Monday, 18 May 2015, being the last day for lodging applications under the Hong Kong Public Offering, cause to be published in South China Morning Post (in English) and Hong Kong Economic Times (in Chinese), on the Stock Exchange's website at www.hkexnews.hk, and on the Company's website at www.yunnanwater.cn notice of the reduction in the number of Offer Shares being offered under the Global Offering and/or the indicative Offer Price range. Such notice will also include confirmation or revision, as appropriate, of the working capital statement and the offering statistics as currently set out in "Summary" and any other financial information which may change as a result of such reduction.

Before submitting applications for the Hong Kong Offer Shares, applicants should have regard to the possibility that any announcement of any such reduction in the number of Offer Shares being offered under the Global Offering and/or the indicative Offer Price range may not be made until the day which is the last day for lodging applications under the Hong Kong Public Offering.

If the number of Offer Shares being offered under the Global Offering and/or the indicative Offer Price range is so reduced, applicants who have already submitted an application will be notified that they are required to confirm their applications. All applicants who have already submitted an application need to confirm their applications in accordance with the procedures set out in the announcement and all unconfirmed applications will not be valid. In the absence of any notice being published of a reduction in the number of Offer Shares being offered under the Global Offering and/or a reduction in the indicative Offer Price range stated in this prospectus and the Application Forms, respectively, on or before the last day for lodging applications under the Hong Kong Public Offering, the Offer Price, once agreed upon, will under no circumstances be outside the Offer Price range as stated in this prospectus.

The applicable Offer Price, level of applications in the Hong Kong Public Offering, the level of indications of interest in the International Offering, the results of applications and basis of allotment of the Hong Kong Offer Shares are expected to be announced on Tuesday, 26 May 2015 through a variety of channels as described in "How to Apply for Hong Kong Offer Shares — 11. Publication of Results".

STRUCTURE OF GLOBAL OFFERING

STABILISATION

Stabilisation is a practice used by underwriters in some markets to facilitate the distribution of securities. To stabilise, underwriters may bid for or purchase securities in the secondary market during a specified period of time to retard and, if possible, prevent a decline in the initial public market price of the securities below the offer price. Such transactions may be effected in all jurisdictions where it is permissible to do so, in each case in compliance with all applicable laws and regulatory requirements of the relevant jurisdictions. In Hong Kong, the price at which stabilisation is effected is not permitted to exceed the offer price.

In connection with the Global Offering, the Stabilising Manager, its affiliates or any persons acting for it may, to the extent permitted by applicable laws of Hong Kong or elsewhere, over-allocate or effect transactions with a view to stabilising or supporting the market price of our H Shares at a level higher than that which might otherwise prevail in the open market for a limited period after the Listing Date. Any market purchases of our H Shares will be effected in compliance with all applicable laws and regulatory requirements. However, there is no obligation on the Stabilising Manager, its affiliates or any persons acting for it to conduct any such stabilising action. Such stabilising action, if taken, will be required to be brought to an end within 30 days of the last day for lodging applications under the Hong Kong Public Offering and conducted at the absolute discretion of the Stabilising Manager, its affiliates or any persons acting for it, and may be discontinued at any time.

Stabilisation action permitted in Hong Kong pursuant to the Securities and Futures (Price Stabilising) Rules of the SFO, as amended, includes (i) over-allocating for the purpose of preventing or minimising any reduction in the market price of our H Shares; (ii) selling or agreeing to sell our H Shares so as to establish a short position in them for the purpose of preventing or minimising any reduction in the market price of our H Shares; (iii) purchasing or agreeing to purchase our H Shares pursuant to the Over-allotment Option in order to close out any position established under (i) or (ii) above; (iv) purchasing or agreeing to purchase our H Shares for the sole purpose of preventing or minimising any reduction in the market price of our H Shares; (v) selling or agreeing to sell our H Shares in order to liquidate any position established as a result of the abovementioned purchases; and (vi) offering or attempting to do anything as described in (ii), (iii), (iv) or (v) above.

Specifically, prospective applicants for the Offer Shares should note that:

- the Stabilising Manager, its affiliates or any person acting for it may, in connection with the stabilising action, maintain a long position in our H Shares.
- there is no certainty as to the extent to which, and the time or period for which, the Stabilising Manager, its affiliates or any person acting for it will maintain such a long position;

STRUCTURE OF GLOBAL OFFERING

- liquidation and selling of any such long position in the open market by the Stabilising Manager, its affiliates or any person acting for it may have an adverse impact on the market price of our H Shares;
- no stabilising action can be taken to support the price of our H Shares for longer than the stabilisation period which will begin on the Listing Date and is expected to expire on Wednesday, 17 June 2015, being the 30th day after the last date for lodging applications under the Hong Kong Public Offering. After this date, when no further stabilising action may be taken, demand for our H Shares, and therefore the price of our H Shares, could fall;
- the price of our H Shares cannot be assured to stay at or above the Offer Price by the taking of any stabilising action; and
- stabilising bids or transactions effected in the course of the stabilising action may be made at any price at or below the Offer Price and can, therefore, be done at a price below the price paid by applicants for the Offer Shares.

Our Company will ensure or procure that an announcement in compliance with the Securities and Futures (Price Stabilising) Rules of the SFO will be made within seven days of the expiration of the stabilisation period.

In connection with the Global Offering, the Stabilising Manager may over-allocate up to and not more than an aggregate of 43,128,000 H Shares and cover such over-allocations by (amongst other methods) exercising the Over-allotment Option, making purchases in the secondary market at prices that do not exceed the Offer Price or by any combination of these means.

UNDERWRITING ARRANGEMENTS

The Hong Kong Public Offering is fully underwritten by the Hong Kong Underwriter under the terms of the Hong Kong Underwriting Agreement, subject to agreement on the Offer Price between the Sole Global Coordinator and us on the Price Determination Date.

We expect that our Company will, on or about Monday, 18 May 2015, shortly after determination of the Offer Price, enter into the International Underwriting Agreement relating to the International Offering. Underwriting arrangements, the Hong Kong Underwriting Agreement and the International Underwriting Agreement are summarised in “Underwriting”.

STRUCTURE OF GLOBAL OFFERING

DEALING ARRANGEMENTS

Assuming that the Hong Kong Public Offering becomes unconditional at or before 8:00 a.m. in Hong Kong on Wednesday, 27 May 2015, it is expected that dealings in H Shares on the Stock Exchange will commence on Wednesday, 27 May 2015. Our H Shares will be traded in board lots of 1,000 H Shares each.

CONDITIONS OF THE HONG KONG PUBLIC OFFERING

Acceptance of all applications for the Hong Kong Offer Shares pursuant to the Hong Kong Public Offering will be conditional on, inter alia:

- the Listing Committee of the Stock Exchange granting the listing of, and permission to deal in, the Offer Shares to be issued pursuant to the Global Offering (including any Offer Shares which may be issued pursuant to the exercise of the Over-allotment Option) (subject only to allotment and despatch of the share certificates in respect thereof and such other normal conditions acceptable to the Company and the Sole Global Coordinator not later than Wednesday, 27 May 2015 (or such later date as the Company and the Sole Global Coordinator may agree) and such listing and permission not subsequently having been revoked prior to the commencement of dealings in the Offer Shares on the Stock Exchange;
- the Company having submitted to the HKSCC all requisite documents to enable the Offer Shares to be admitted to trade on the Stock Exchange;
- the Offer Price having been duly determined and the execution and delivery of the International Underwriting Agreement on or around the Price Determination Date; and
- the obligations of the Underwriter under the respective Underwriting Agreements becoming and remaining unconditional (unless and to the extent such conditions are validly waived on or before such dates and times by the Sole Global Coordinator and not having been terminated in accordance with the terms of the respective agreements.

In each case on or before the dates and times specified in the respective Underwriting Agreements (unless and to the extent such conditions are validly waived on or before such dates and times) and in any event not later than the date which is 30 days after the date of this prospectus.

STRUCTURE OF GLOBAL OFFERING

If the above conditions are not fulfilled or waived prior to the times and dates specified, the Global Offering will lapse and the Stock Exchange will be notified immediately. We will cause a notice of the lapse of the Hong Kong Public Offering to be published by us in South China Morning Post (in English) and Hong Kong Economic Times (in Chinese) on the next day following such lapse. In such event, all application monies will be returned, without interest, on the terms set out in “How to Apply for Hong Kong Offer Shares”. In the meantime, the application monies will be held in separate bank account(s) with the receiving banks or other bank(s) in Hong Kong licensed under the Banking Ordinance (Chapter 155 of the Laws of Hong Kong) (as amended).

The consummation of each of the Hong Kong Public Offering and the International Offering is conditional upon, amongst other things, the other becoming unconditional and not having been terminated in accordance with its terms.

Share certificates for the Offer Shares are expected to be issued on Tuesday, 26 May 2015 but will only become valid certificates of title at 8:00 a.m. on the date of commencement of the dealings in our H Shares, which is expected to be on Wednesday, 27 May 2015, provided that (i) the Global Offering has become unconditional in all respects and (ii) neither of the Underwriting Agreements has been terminated in accordance with its terms. Investors who trade Offer Shares prior to the receipt of share certificates or prior to the share certificates bearing valid certificates of title do so entirely at their own risk.

HOW TO APPLY FOR HONG KONG OFFER SHARES

1. HOW TO APPLY

If you apply for Hong Kong Offer Shares, then you may not apply for or indicate an interest for International Offer Shares.

To apply for Hong Kong Offer Shares, you may:

- use a **WHITE** or **YELLOW** Application Form;
- apply online via the **HK eIPO White Form** service at www.hkeipo.hk; or
- electronically cause HKSCC Nominees to apply on your behalf.

None of you or your joint applicant(s) may make more than one application, except where you are a nominee and provide the required information in your application.

The Company, the Sole Global Coordinator, the **HK eIPO White Form** Service Provider and their respective agents may reject or accept any application in full or in part for any reason at their discretion.

2. WHO CAN APPLY

You can apply for Hong Kong Offer Shares on a **WHITE** or **YELLOW** Application Form if you or the person(s) for whose benefit you are applying:

- are 18 years of age or older;
- have a Hong Kong address;
- are outside the United States, and are not a United States Person (as defined in Regulation S); and
- are not a legal or natural person of the PRC.

If you apply online through the **HK eIPO White Form** service, in addition to the above, you must also: (i) have a valid Hong Kong identity card number and (ii) provide a valid e-mail address and a contact telephone number.

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 their discretion and on any conditions they think fit, including evidence of the attorney's authority.

HOW TO APPLY FOR HONG KONG OFFER SHARES

The number of joint applicants may not exceed four and they may not apply by means of **HK eIPO White Form** service for the Hong Kong Offer Shares.

Unless permitted by the Listing Rules, you cannot apply for any Hong Kong Offer Shares if you are:

- an existing beneficial owner of any Shares in the Company and/or any its subsidiaries;
- a Director or chief executive officer of the Company and/or any of its subsidiaries;
- a connected person (as defined in the Listing Rules) of the Company or will become a connected person of the Company immediately upon completion of the Global Offering;
- an associate (as defined in the Listing Rules) of any of the above; and
- have been allocated or have applied for any International Offer Shares or otherwise participate in the International Offering.

3. APPLYING FOR HONG KONG OFFER SHARES

Which Application Channel to Use

For Hong Kong Offer Shares to be issued in your own name, use a **WHITE** Application Form or apply online through www.hkeipo.hk.

For Hong Kong Offer Shares to be issued in the name of HKSCC Nominees and deposited directly into CCASS to be credited to your or a designated CCASS Participant's stock account, use a **YELLOW** Application Form or electronically instruct HKSCC via CCASS to cause HKSCC Nominees to apply for you.

Where to Collect the Application Forms

You can collect a **WHITE** Application Form and a prospectus during normal business hours between 9:00 a.m. on Wednesday, 13 May 2015 until 12:00 noon on Monday, 18 May 2015:

- (i) the following office of the Sole Bookrunner:

China Merchants Securities (HK) Co., Limited
48/F., One Exchange Square
Central, Hong Kong

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(ii) any of the branches and sub-branches of the following receiving banks:

Standard Chartered Bank (Hong Kong) Limited

District	Branch Name	Address
Hong Kong Island	Des Voeux Road Branch	Standard Chartered Bank Building, 4-4A, Des Voeux Road Central, Central
	Aberdeen Branch	Shop 4A, G/F and Shop 1, 1/F, Aberdeen Centre Site 5, No. 6-12 Nam Ning Street, Aberdeen
	Hennessy Road Branch	399 Hennessy Road, Wanchai
Kowloon	Kwun Tong Branch	G/F, 414 Kwun Tong Road, Kowloon
	San Po Kong Branch	Shop A, G/F, Perfect Industrial Building, 31 Tai Yau Street, San Po Kong

The Bank of East Asia, Limited

District	Branch name	Address
Hong Kong Island	Main Branch	10 Des Voeux Road Central, Central
	88 Des Voeux Road West Branch	Shop 2-3, G/F, Princeton Tower, 88 Des Voeux Road West, Sheung Wan
	Shaukiwan Branch	G/F, Ka Fook Building, 289-293 Shau Kei Wan Road, Shau Kei Wan
Kowloon	Prince Edward Branch	G/F, Hanley House, 776-778 Nathan Road, Prince Edward
	East Tsim Sha Tsui Branch	Shop G3-G5, G/F, East Ocean Centre, 98 Granville Road, Tsim Sha Tsui

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Bank of Communications Co., Ltd. Hong Kong Branch

District	Sub-Branch name	Address
Hong Kong Island	Central District Sub-Branch	G/F., Far East Consortium Building, 125A Des Voeux Road C., Central
	Quarry Bay Sub-Branch	G/F., 981C King's Road, Quarry Bay
Kowloon	Shamshuipo Sub-Branch	Shop G1, G/F., Golden Centre, 94 Yen Chow Street, Sham Shui Po
	Jordan Road Sub-Branch	1/F., Booman Building, 37U Jordan Road
New Territories	Yuen Long Sub-Branch	Shop 2B, G/F., Man Yu Building, 2-14 Tai Fung Street, Yuen Long
	Tseung Kwan O Sub-Branch	Shop 253-255, Metro City Shopping Arcade, Phase I, Tseung Kwan O

You can collect a **YELLOW** Application Form and a prospectus during normal business hours from 9:00 a.m. on Wednesday, 13 May 2015 until 12:00 noon on Monday, 18 May 2015 from the Depository Counter of HKSCC at 1/F, One & Two Exchange Square, 8 Connaught Place, Central, Hong Kong or from your stockbroker.

Time for Lodging Application Forms

Your completed **WHITE** or **YELLOW** Application Form, together with a cheque or a banker's cashier order attached and marked payable to Horsford Nominees Limited — Yunnan Water Public Offer for the payment, should be deposited in the special collection boxes provided at any of the branches and sub-branches of the receiving banks listed above, at the following times:

- Wednesday, 13 May 2015 — 9:00 a.m. to 5:00 p.m.
- Thursday, 14 May 2015 — 9:00 a.m. to 5:00 p.m.
- Friday, 15 May 2015 — 9:00 a.m. to 5:00 p.m.
- Saturday, 16 May 2015 — 9:00 a.m. to 1:00 p.m.
- Monday, 18 May 2015 — 9:00 a.m. to 12:00 noon

The application lists will be open from 11:45 a.m. to 12:00 noon on Monday, 18 May 2015, the last application day or such later time as described in "Effect of Bad Weather on the Opening of the Applications Lists" in this section.

HOW TO APPLY FOR HONG KONG OFFER SHARES

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 or applying through **HK eIPO White Form** service, among other things, you:

- (i) undertake to execute all relevant documents and instruct and authorise the Company and/or the Sole Global Coordinator (or its agents or nominees), as agents of the Company, to execute any documents for you and to do on your behalf all things necessary to register any Hong Kong Offer Shares allocated to you in your name or in the name of HKSCC Nominees as required by the Articles of Association;
- (ii) agree to comply with the Companies Ordinance, the Companies (WUMP) Ordinance, the Company Law, the Special Regulations and the Articles of Association;
- (iii) confirm that you have read the terms and conditions and application procedures set out in this prospectus and in the Application Form and agree to be bound by them;
- (iv) confirm that you have received and read this prospectus and have only relied on the information and representations contained in this prospectus in making your application and will not rely on any other information or representations except those in any supplement to this prospectus;
- (v) confirm that you are aware of the restrictions on the Global Offering in this prospectus;
- (vi) agree that none of the Company, the Sole Global Coordinator, the Underwriter, their respective directors, officers, employees, partners, agents, advisers and any other parties involved in the Global Offering is or will be liable for any information and representations not in this prospectus (and any supplement to it);
- (vii) undertake and confirm that you or the person(s) for whose benefit you have made the application have not applied for or taken up, or indicated an interest for, and will not apply for or take up, or indicate an interest for, any International Offer Shares under the International Offering nor participated in the International Offering;
- (viii) agree to disclose to the Company, our H Share Registrar, receiving banks, the Sole Global Coordinator, the Underwriter 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;

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- (ix) 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 the Company, the Sole Global Coordinator and the Underwriter 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;
- (x) agree that once your application has been accepted, you may not rescind it because of an innocent misrepresentation;
- (xi) agree that your application will be governed by the laws of Hong Kong;
- (xii) represent, warrant and undertake that (i) you understand that the Hong Kong Offer Shares have not been and will not be registered under the U.S. Securities Act; and (ii) you and any person for whose benefit you are applying for the Hong Kong 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;
- (xiii) warrant that the information you have provided is true and accurate;
- (xiv) agree to accept the Hong Kong Offer Shares applied for, or any lesser number allocated to you under the application;
- (xv) authorise the Company to place your name(s) or the name of the HKSCC Nominees, on the Company's register of members as the holder(s) of any Hong Kong Offer Shares allocated to you, and the Company and/or its agents to send any share certificate(s) and/or any e-Auto Refund payment instructions and/or any refund cheque(s) to you or the first-named applicant for joint application by ordinary post at your own risk to the address stated on the application, unless you have chosen to collect the share certificate(s) and/or refund cheque(s) in person;
- (xvi) declare and represent that this is the only application made and the only application intended by you to be made to benefit you or the person for whose benefit you are applying;
- (xvii) understand that the Company 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 Hong Kong Offer Shares to you and that you may be prosecuted for making a false declaration;
- (xviii) (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 or by giving electronic application instructions to HKSCC or to the **HK eIPO White Form** Service Provider by you or by any one as your agent or by any other person; and

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- (xix) (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 or by giving electronic application instructions to HKSCC; and (ii) you have due authority to sign the Application Form or give electronic application instructions on behalf of that other person as their agent.

Additional Instructions for Yellow Application Form

You may refer to the **Yellow** Application Form for details.

5. APPLYING THROUGH HK eIPO WHITE FORM SERVICE

General

Individuals who meet the criteria in “Who can apply” section, may apply through the **HK eIPO White Form** service for the Offer Shares to be allotted and registered in their own names through the designated website at www.hkeipo.hk.

Detailed instructions for application through the **HK eIPO White Form** service are on the designated website. If you do not follow the instructions, your application may be rejected and may not be submitted to the Company. If you apply through the designated website, you authorise the **HK eIPO White Form** Service Provider to apply on the terms and conditions in this prospectus, as supplemented and amended by the terms and conditions of the **HK eIPO White Form** service.

Time for Submitting Applications under the HK eIPO White Form Service

You may submit your application to the **HK eIPO White Form** Service Provider at www.hkeipo.hk (24 hours daily, except on the last application day) from 9:00a.m. on Wednesday, 13 May 2015 until 11:30 a.m. on Monday, 18 May 2015 and the latest time for completing full payment of application monies in respect of such applications will be 12:00 noon on Monday, 18 May 2015 or such later time under the “Effects of Bad Weather on the Opening of the Applications Lists” in this section.

No Multiple Applications

If you apply by means of **HK eIPO White Form**, once you complete payment in respect of any electronic application instruction given by you or for your benefit through the **HK eIPO White Form** service to make an application for Hong Kong Offer Shares, an actual application shall be deemed to have been made. For the avoidance of doubt, giving an electronic application instruction under **HK eIPO White Form** more than once and obtaining different application reference numbers without effecting full payment in respect of a particular reference number will not constitute an actual application.

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If you are suspected of submitting more than one application through the **HK eIPO White Form** service or by any other means, all of your applications are liable to be rejected.

Section 40 of the Companies (WUMP) Ordinance

For the avoidance of doubt, the Company and all other parties involved in the preparation of this prospectus acknowledge that each applicant who gives or causes to give electronic application instructions is a person who may be entitled to compensation under Section 40 of the Companies (WUMP) Ordinance (as applied by Section 342E of the Companies (WUMP) Ordinance).

6. APPLYING BY GIVING ELECTRONIC APPLICATION INSTRUCTIONS TO HKSCC VIA CCASS

General

CCASS Participants may give electronic application instructions to apply for the Hong Kong Offer Shares and to arrange payment of the money due on application and payment of refunds under their participant agreements with HKSCC and the General Rules of CCASS and the CCASS Operational Procedures.

If you are a CCASS Investor Participant, you may give these electronic application instructions through the CCASS Phone System by calling +852 2979 7888 or through the CCASS Internet System (<https://ip.ccass.com>) (using the procedures in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time).

HKSCC can also input electronic application instructions for you if you go to:

Hong Kong Securities Clearing Company Limited

Customer Service Centre
1/F, One & Two Exchange Square
8 Connaught Place, Central
Hong Kong

and complete an input request form.

You can also collect a prospectus from this address.

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If you are not a CCASS Investor Participant, you may instruct your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give electronic application instructions via CCASS terminals to apply for the Hong Kong Offer Shares on your behalf.

You will be deemed to have authorised HKSCC and/or HKSCC Nominees to transfer the details of your application to the Company, the Sole Global Coordinator and our H Share Registrar.

Giving Electronic Application Instructions to HKSCC via CCASS

Where you have given electronic application instructions to apply for the Hong Kong Offer Shares and a **WHITE** Application Form is signed by HKSCC Nominees on your behalf:

- (i) HKSCC Nominees will only be acting as a nominee for you and is not liable for any breach of the terms and conditions of the **WHITE** Application Form or this prospectus;
- (ii) HKSCC Nominees will do the following things on your behalf:
 - agree that the Hong Kong Offer Shares to be allotted shall be issued in the name of HKSCC Nominees and deposited directly into CCASS for the credit of the CCASS Participant's stock account on your behalf or your CCASS Investor Participant's stock account;
 - agree to accept the Hong Kong Offer Shares applied for or any lesser number allocated;
 - (if the electronic application instruction are given for your benefit) undertake and confirm that you have not applied for or taken up, will not apply for or take up, or indicate an interest for, any Offer Shares under the International Offering;
 - declare that only one set of electronic application instructions has been given for your benefit;
 - (if you are an agent for another person) declare that you have only given one set of electronic application instructions for the other person's benefit and are duly authorised to give those instructions as their agent;
 - confirm that you understand that the Company, the Directors 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 Hong Kong Offer Shares to you and that you may be prosecuted if you make a false declaration;

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- authorise the Company to place HKSCC Nominees' name on the Company's register of members as the holder of the Hong Kong Offer Shares allocated to you and to send share certificate(s) and/or refund monies under the arrangements separately agreed between us and HKSCC;
- confirm that you have read the terms and conditions and application procedures set out in this prospectus and agree to be bound by them;
- confirm that you have received and/or read a copy of this prospectus and have relied only on the information and representations in this prospectus in causing the application to be made, save as set out in any supplement to this prospectus;
- agree that none of the Company, the Sole Global Coordinator, the Underwriter, their respective directors, officers, employees, partners, agents, advisers and any other parties involved in the Global Offering, is or will be liable for any information and representations not contained in this prospectus (and any supplement to it);
- agree to disclose your personal data to the Company, our H Share Registrar, receiving banks, the Sole Global Coordinator, the Underwriter and/or its respective advisers and agents;
- agree without prejudice to any other rights which you may have) that once HKSCC Nominees' application has been accepted, it cannot be rescinded for innocent misrepresentation;
- agree that any application made by HKSCC Nominees on your behalf is irrevocable before the fifth day after the time of the opening of the application lists (excluding any day which is Saturday, Sunday or public holiday in Hong Kong), such agreement to take effect as a collateral contract with us and to become binding when you give the instructions and such collateral contract to be in consideration of the Company agreeing that it will not offer any Hong Kong Offer Shares to any person before the fifth day after the time of the opening of the application lists (excluding any day which is Saturday, Sunday or public holiday in Hong Kong), except by means of one of the procedures referred to in this prospectus. However, HKSCC Nominees may revoke the application before the fifth day after the time of the opening of the application lists (excluding for this purpose any day which is a Saturday, Sunday or public holiday in Hong Kong) if a person responsible for this prospectus under Section 40 of the Companies (WUMP) Ordinance gives a public notice under that section which excludes or limits that person's responsibility for this prospectus;

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- agree that once HKSCC Nominees' application is accepted, neither that application nor your electronic application instructions can be revoked, and that acceptance of that application will be evidenced by the Company's announcement of the Hong Kong Public Offering results;
- agree to the arrangements, undertakings and warranties under the participant agreement between you and HKSCC, read with the General Rules of CCASS and the CCASS Operational Procedures, for the giving electronic application instructions to apply for Hong Kong Offer Shares;
- agree with the Company, for itself and for the benefit of each Shareholder (and so that the Company will be deemed by its acceptance in whole or in part of the application by HKSCC Nominees to have agreed, for itself and on behalf of each of the Shareholders, with each CCASS Participant giving electronic application instructions) to observe and comply with the Companies Ordinance, the Companies (WUMP) Ordinance, the Company Law, the Special Regulations and the Articles of Association;
- **agree** with the Company, for itself and for the benefit of each shareholder of the Company and each director, supervisor, manager and other senior officer of the Company (and so that the Company will be deemed by its acceptance in whole or in part of this application to have agreed, for itself and on behalf of each shareholder of the Company and each director, supervisor, manager and other senior officer of the Company, with each CCASS Participant giving electronic application instructions):
 - (a) to refer all differences and claims arising from the Articles of Association or any rights or obligations conferred or imposed by the Company Law or other relevant laws and administrative regulations concerning the affairs of the Company to arbitration in accordance with the Articles of Association;
 - (b) that any award made in such arbitration shall be final and conclusive; and
 - (c) that the arbitration tribunal may conduct hearings in open sessions and publish its award;
- **agree** with the Company (for the Company itself and for the benefit of each shareholder of the Company) that H shares in the Company are freely transferable by their holders;
- **authorise** the Company to enter into a contract on its behalf with each director and officer of the Company whereby each such director and officer undertakes to observe and comply with his obligations to shareholders stipulated in the Articles of Association; and
- agree that your application, any acceptance of it and the resulting contract will be governed by the Laws of Hong Kong.

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Effect of Giving Electronic Application Instructions to HKSCC via CCASS

By giving electronic application instructions to HKSCC or instructing your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give such instructions to HKSCC, you (and, if you are joint applicants, each of you jointly and severally) are deemed to have done the following things. Neither HKSCC nor HKSCC Nominees shall be liable to the Company or any other person in respect of the things mentioned below:

- instructed and authorised HKSCC to cause HKSCC Nominees (acting as nominee for the relevant CCASS Participants) to apply for the Hong Kong Offer Shares on your behalf;
- instructed and authorised HKSCC to arrange payment of the maximum Offer Price, brokerage, SFC transaction levy and the Stock Exchange trading fee by debiting your designated bank account and, in the case of a wholly or partially unsuccessful application and/or if the Offer Price is less than the maximum Offer Price per Offer Share initially paid on application, refund of the application monies (including brokerage, SFC transaction levy and the Stock Exchange trading fee) by crediting your designated bank account; and
- instructed and authorised HKSCC to cause HKSCC Nominees to do on your behalf all the things stated in the **WHITE** Application Form and in this prospectus.

Minimum Purchase Amount and Permitted Numbers

You may give or cause your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give electronic application instructions for a minimum of number of 1,000 Hong Kong Offer Shares. Instructions for more than 1,000 Hong Kong Offer Shares must be in one of the numbers set out in the table in the Application Forms. No application for any other number of Hong Kong Offer Shares will be considered and any such application is liable to be rejected.

Time for Inputting Electronic Application Instructions

CCASS Clearing/Custodian Participants can input electronic application instructions at the following times on the following dates:

- Wednesday, 13 May 2015 — 9:00 a.m. to 8:30 p.m.⁽¹⁾
- Thursday, 14 May 2015 — 8:00 a.m. to 8:30 p.m.⁽¹⁾
- Friday, 15 May 2015 — 8:00 a.m. to 8:30 p.m.⁽¹⁾
- Saturday, 16 May 2015 — 8:00 a.m. to 1:00 p.m.⁽¹⁾
- Monday, 18 May 2015 — 8:00 a.m.⁽¹⁾ to 12:00 noon

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Note:

- ⁽¹⁾ These times are subject to change as HKSCC may determine from time to time with prior notification to CCASS Clearing/Custodian Participants.

CCASS Investor Participants can input electronic application instructions from 9:00 a.m. on Wednesday, 13 May 2015 until 12:00 noon on Monday, 18 May 2015 (24 hours daily, except on the last application day).

The latest time for inputting your electronic application instructions will be 12:00 noon on Monday, 18 May 2015, the last application day or such later time as described in “Effect of Bad Weather on the Opening of the Application Lists” in this section.

No Multiple Applications

If you are suspected of having made multiple applications or if more than one application is made for your benefit, the number of Hong Kong Offer Shares applied for by HKSCC Nominees will be automatically reduced by the number of Hong Kong Offer Shares for which you have given such instructions and/or for which such instructions have been given for your benefit. Any electronic application instructions to make an application for the Hong Kong Offer Shares given by you or for your benefit to HKSCC shall be deemed to be an actual application for the purposes of considering whether multiple applications have been made.

Section 40 of the Companies (WUMP) Ordinance

For the avoidance of doubt, the Company and all other parties involved in the preparation of this prospectus acknowledge that each CCASS Participant who gives or causes to give electronic application instructions is a person who may be entitled to compensation under Section 40 of the Companies (WUMP) Ordinance (as applied by Section 342E of the Companies (WUMP) Ordinance).

Personal Data

The section of the Application Form headed “Personal Data” applies to any personal data held by the Company, the H Share Registrar, the receiving banks, the Sole Global Coordinator, the Underwriter and any of their respective advisers and agents about you in the same way as it applies to personal data about applicants other than HKSCC Nominees.

7. WARNING FOR ELECTRONIC APPLICATIONS

The subscription of the Hong Kong Offer Shares by giving electronic application instructions to HKSCC is only a facility provided to CCASS Participants. Similarly, the application for Hong Kong Offer Shares through the **HK eIPO White Form** service is also only a facility provided by the **HK eIPO White Form** Service Provider to public investors. Such facilities are subject to capacity limitations and potential service interruptions and you are advised not to wait until the last application day in making your electronic applications. The

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Company, the Directors, the Sole Global Coordinator, the Sponsor and the Underwriter take no responsibility for such applications and provide no assurance that any CCASS Participant or person applying through the **HK eIPO White Form** service will be allotted any Hong Kong Offer Shares.

To ensure that CCASS Investor Participants can give their electronic application instructions, they are advised not to wait until the last minute to input their instructions to the systems. In the event that CCASS Investor Participants have problems in the connection to CCASS Phone System/CCASS Internet System for submission of electronic application instructions, they should either (i) submit a **WHITE** or **YELLOW** Application Form, or (ii) go to HKSCC's Customer Service Centre to complete an input request form for electronic application instructions before 12:00 noon on Monday, 18 May 2015.

8. HOW MANY APPLICATIONS CAN YOU MAKE

Multiple applications for the Hong Kong Offer Shares are not allowed except by nominees. If you are a nominee, in the box on the Application Form marked "For nominees" you must include:

- an account number; or
- some other identification code,

for each beneficial owner or, in the case of joint beneficial owners, for each joint beneficial owner. If you do not include this information, the application will be treated as being made for your benefit.

All of your applications will be rejected if more than one application on a **WHITE** or **YELLOW** Application Form or by giving electronic application instructions to HKSCC or through **HK eIPO White Form** service, is made for your benefit (including the part of the application made by HKSCC Nominees acting on electronic application instructions). If an application is made by an unlisted company and:

- the principal business of that company is dealing in securities; and
- you exercise statutory control over that company,

then the application will be treated as being for your benefit.

"Unlisted company" means a company with no equity securities listed on the Hong Kong Stock Exchange.

"Statutory control" means you:

- control the composition of the board of directors of the company;

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- control more than half of the voting power of the company; or
- hold more than half of the issued share capital of the company (not counting any part of it which carries no right to participate beyond a specified amount in a distribution of either profits or capital).

9. HOW MUCH ARE THE HONG KONG OFFER SHARES

The **WHITE** and **YELLOW** Application Forms have tables showing the exact amount payable for Shares.

You must pay the maximum Offer Price, brokerage, SFC transaction levy and the Stock Exchange trading fee in full upon application for H Shares under the terms set out in the Application Forms.

You may submit an application using a **WHITE** or **YELLOW** Application Form or through the **HK eIPO White Form** service in respect of a minimum of 1,000 Hong Kong Offer Shares. Each application or electronic application instruction in respect of more than 1,000 Hong Kong Offer Shares must be in one of the numbers set out in the table in the Application Form, or as otherwise specified on the designated website at www.hkeipo.hk.

If your application is successful, brokerage will be paid to the Exchange Participants, and the SFC transaction levy and the 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 “Structure of the Global Offering — Pricing of the Global Offering”.

10. EFFECT OF BAD WEATHER ON THE OPENING OF THE APPLICATION LISTS

The application lists will not open if there is:

- a tropical cyclone warning signal number 8 or above; or
- a “black” rainstorm warning,

in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Monday, 18 May 2015. Instead they will open between 11:45 a.m. and 12:00 noon on the next Business Day which does not have either of those warnings in Hong Kong in force at any time between 9:00 a.m. and 12:00 noon.

If the application lists do not open and close on Monday, 18 May 2015 or if there is a tropical cyclone warning signal number 8 or above or a “black” rainstorm warning signal in force in Hong Kong that may affect the dates mentioned in “Expected Timetable”, an announcement will be made in such event.

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11. PUBLICATION OF RESULTS

The Company expects to announce the final Offer Price, the level of indication of interest in the International Offering, the level of applications in the Hong Kong Public Offering and the basis of allocation of the Hong Kong Offer Shares on Tuesday, 26 May 2015 in South China Morning Post (in English) and Hong Kong Economic Times (in Chinese) on the Company's website at (<http://www.yunnanwater.cn>) and the website of the Stock Exchange at www.hkexnews.hk.

The results of allocations and the Hong Kong identity card/passport/Hong Kong business registration numbers of successful applicants under the Hong Kong Public Offering will be available at the times and date and in the manner specified below:

- in the announcement to be posted on the Company's website at (<http://www.yunnanwater.cn>) and the Stock Exchange's website at www.hkexnews.hk by no later than 9:00 a.m. on Tuesday, 26 May 2015;
- from the designated results of allocations website at www.tricor.com.hk/ipo/result with a "search by ID" function on a 24-hour basis from 8:00 a.m. on Tuesday, 26 May 2015 to 12:00 midnight on Monday, 1 June 2015;
- by telephone enquiry line by calling +852 3691 8488 between 9:00 a.m. and 6:00 p.m. from Tuesday, 26 May 2015 to Friday, 29 May 2015 on a Business Day;
- in the special allocation results booklets which will be available for inspection during opening hours from Tuesday, 26 May 2015 to Thursday, 28 May 2015 at all the receiving bank branches and sub-branches .

If the Company accepts your offer to purchase (in whole or in part), which it may do by announcing the basis of allocations and/or making available the results of allocations publicly, there will be a binding contract under which you will be required to purchase the Hong Kong Offer Shares if the conditions of the Global Offering are satisfied and the Global Offering is not otherwise terminated. Further details are contained in "Structure of the Global Offering".

You will not be entitled to exercise any remedy of rescission for innocent misrepresentation at any time after acceptance of your application. This does not affect any other right you may have.

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12. CIRCUMSTANCES IN WHICH YOU WILL NOT BE ALLOTTED OFFER SHARES

You should note the following situations in which the Hong Kong Offer Shares will not be allotted to you:

(i) If your application is revoked:

By completing and submitting an Application Form or giving electronic application instructions to HKSCC or to **HK eIPO White Form** Service Provider, you agree that your application or the application made by HKSCC Nominees on your behalf cannot be revoked on or before the fifth day after the time of the opening of the application lists (excluding for this purpose any day which is Saturday, Sunday or public holiday in Hong Kong). This agreement will take effect as a collateral contract with the Company.

Your application or the application made by HKSCC Nominees on your behalf may only be revoked on or before such fifth day if a person responsible for this prospectus under Section 40 of the Companies (WUMP) Ordinance (as applied by Section 342E of the Companies (WUMP) Ordinance gives a public notice under that section which excludes or limits that person's responsibility for this prospectus.

If any supplement to this prospectus is issued, applicants who have already submitted an application will be notified that they are required to confirm their applications. If applicants have been so notified but have not confirmed their applications in accordance with the procedure to be notified, all unconfirmed applications will be deemed revoked.

If your application or the application made by HKSCC Nominees on your behalf has been accepted, it cannot be revoked. For this purpose, acceptance of applications which are not rejected will be constituted by notification in the press of the results of allocation, and where such basis of allocation is subject to certain conditions or provides for allocation by ballot, such acceptance will be subject to the satisfaction of such conditions or results of the ballot respectively.

(ii) If the Company or its agents exercise their discretion to reject your application:

The Company, the Sole Global Coordinator, the **HK eIPO White Form** Service Provider and their respective agents and nominees have full discretion to reject or accept any application, or to accept only part of any application, without giving any reasons.

(iii) If the allotment of Hong Kong Offer Shares is void:

The allotment of Hong Kong Offer Shares will be void if the Listing Committee of the Stock Exchange does not grant permission to list the H Shares either:

- within three weeks from the closing date of the application lists; or

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- within a longer period of up to six weeks if the Listing Committee notifies the Company of that longer period within three weeks of the closing date of the application lists.

(iv) **If:**

- you make multiple applications or suspected multiple applications;
- you or the person for whose benefit you are applying have applied for or taken up, or indicated an interest for, or have been or will be placed or allocated (including conditionally and/or provisionally) the Hong Kong Offer Shares and International Offer Shares;
- your Application Form is not completed in accordance with the stated instructions;
- your electronic application instructions through the **HK eIPO White Form** service are not completed in accordance with the instructions, terms and conditions on the designated website;
- your payment is not made correctly or the cheque or banker's cashier order paid by you is dishonoured upon its first presentation;
- the Underwriting Agreements do not become unconditional or are terminated;
- the Company or the Sole Global Coordinator believe that by accepting your application, it or they would violate applicable securities or other laws, rules or regulations; or
- your application is for more than 50% of the Hong Kong Offer Shares initially offered under the Hong Kong Public Offering.

13. 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\$5.80 per Offer Share (excluding brokerage, SFC transaction levy and the Stock Exchange trading fee), or if the conditions of the Hong Kong Public Offering are not fulfilled in accordance with "Structure of the Global Offering — Conditions of the Hong Kong Public Offering" in this prospectus or if any application is revoked, the application monies, or the appropriate portion thereof, together with the related brokerage, SFC transaction levy and the 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 Tuesday, 26 May 2015.

HOW TO APPLY FOR HONG KONG OFFER SHARES

14. DISPATCH/COLLECTION OF SHARE CERTIFICATES AND REFUND MONIES

You will receive one share certificate for all Hong Kong Offer Shares allotted to you under the Hong Kong Public Offering (except pursuant to applications made on **YELLOW** Application Forms or by electronic application instructions to HKSCC via CCASS where the share certificates will be deposited into CCASS as described below).

No temporary document of title will be issued in respect of the H Shares. No receipt will be issued for sums paid on application. If you apply by **WHITE** or **YELLOW** Application Form, subject to personal collection as mentioned below, the following will be sent to you (or, in the case of joint applicants, to the first-named applicant) by ordinary post, at your own risk, to the address specified on the Application Form:

- share certificate(s) for all the Hong Kong Offer Shares allotted to you (for **YELLOW** Application Forms, share certificates will be deposited into CCASS as described below); and
- refund cheque(s) crossed “Account Payee Only” in 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 Hong Kong Offer Shares, wholly or partially unsuccessfully applied for; and/or (ii) the difference between the Offer Price and the maximum Offer Price per Offer Share paid on application in the event that the Offer Price is less than the maximum Offer Price (including brokerage, SFC transaction levy and the 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 banker may require verification of your Hong Kong identity card number/passport number before encashment of your refund cheque(s). Inaccurate completion of your Hong Kong identity card number/passport number may invalidate or delay encashment of your refund cheque(s).

Subject to arrangement on dispatch/collection of share certificates and refund monies as mentioned below, any refund cheques and share certificates are expected to be posted on or around Tuesday, 26 May 2015. The right is reserved to retain any share certificate(s) and any surplus application monies pending clearance of cheque(s) or banker’s cashier’s order(s).

Share certificates will only become valid at 8:00 a.m. on Wednesday, 27 May 2015 provided that the Global Offering has become unconditional and the right of termination described in “Underwriting” has not been exercised. Investors who trade the H Shares prior to the receipt of share certificates or the share certificates becoming valid do so at their own risk.

HOW TO APPLY FOR HONG KONG OFFER SHARES

Personal Collection

(i) If you apply using a **WHITE** Application Form

If you apply for 1,000,000 or more Hong Kong 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 our H Share Registrar at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, from 9:00 a.m. to 1:00 p.m. on Tuesday, 26 May 2015 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 H 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 dispatched promptly to the address specified in your Application Form by ordinary post at your own risk.

If you apply for less than 1,000,000 Hong Kong Offer Shares, your refund cheque(s) and/or share certificate(s) will be sent to the address on the relevant Application Form on Tuesday, 26 May 2015, by ordinary post and at your own risk.

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

If you apply for 1,000,000 Hong Kong Offer Shares or more, please follow the same instructions as described above. If you have applied for less than 1,000,000 Hong Kong Offer Shares, your refund cheque(s) will be sent to the address on the relevant Application Form on Tuesday, 26 May 2015, by ordinary post and at your own risk.

If you apply by using a **YELLOW** Application Form and your application is wholly or partially successful, your share certificate(s) will be issued in the name of HKSCC Nominees and deposited into CCASS for credit to your or the designated CCASS Participant's stock account as stated in your Application Form on Tuesday, 26 May 2015, or upon contingency, on any other date determined by HKSCC or HKSCC Nominees.

- **If you apply through a designated CCASS participant (other than a CCASS investor participant)**

For Hong Kong Offer Shares credited to your designated CCASS participant's stock account (other than CCASS Investor Participant), you can check the number of Hong Kong Offer Shares allotted to you with that CCASS participant.

HOW TO APPLY FOR HONG KONG OFFER SHARES

- **If you are applying as a CCASS investor participant**

The Company will publish the results of CCASS Investor Participants' applications together with the results of the Hong Kong Public Offering in the manner described in "Publication of Results" above. You should check the announcement published by the Company and report any discrepancies to HKSCC before 5:00 p.m. on Tuesday, 26 May 2015 or any other date as determined by HKSCC or HKSCC Nominees.

Immediately after the credit of the Hong Kong Offer Shares to your stock account, you can check your new account balance via the CCASS Phone System and CCASS Internet System.

- (iii) **If you apply through HK eIPO White Form service**

If you apply for 1,000,000 Hong Kong Offer Shares or more and your application is wholly or partially successful, you may collect your share certificate(s) from H Share Registrar at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, from 9:00 a.m. to 1:00 p.m. on Tuesday, 26 May 2015, or such other date as notified by the Company in the newspapers as the date of dispatch/collection of share certificates/e-Refund payment instructions/refund cheques.

If you do not collect your share certificate(s) personally within the time specified for collection, they will be sent to the address specified in your application instructions by ordinary post at your own risk.

If you apply for less than 1,000,000 Hong Kong Offer Shares, your share certificate(s) (where applicable) will be sent to the address specified in your application instructions on Tuesday, 26 May 2015 by ordinary post at your own risk.

If you apply and pay the application monies from a single bank account, any refund monies will be dispatched to that bank account in the form of e-Refund payment instructions. If you apply and pay the application monies from multiple bank accounts, any refund monies will be dispatched to the address as specified in your application instructions in the form of refund cheque(s) by ordinary post at your own risk.

- (iv) **If you apply via Electronic Application Instructions to HKSCC**

Allocation of Hong Kong Offer Shares

For the purposes of allocating Hong Kong Offer Shares, HKSCC Nominees will not be treated as an applicant. Instead, each CCASS Participant who gives electronic application instructions or each person for whose benefit instructions are given will be treated as an applicant.

HOW TO APPLY FOR HONG KONG OFFER SHARES

Deposit of Share Certificates into CCASS and Refund of Application Monies

- If your application is wholly or partially successful, your share certificate(s) will be issued in the name of HKSCC Nominees and deposited into CCASS for the credit of your designated CCASS Participant's stock account or your CCASS Investor Participant stock account on Tuesday, 26 May 2015, or, on any other date determined by HKSCC or HKSCC Nominees.
- The Company expects to publish the application results of CCASS Participants (and where the CCASS Participant is a broker or custodian, the Company will include information relating to the relevant beneficial owner), your Hong Kong identity card number/passport number or other identification code (Hong Kong business registration number for corporations) and the basis of allotment of the Hong Kong Public Offering in the manner specified in "Publication of Results" above on Tuesday, 26 May 2015. You should check the announcement published by the Company and report any discrepancies to HKSCC before 5:00 p.m. on Tuesday, 26 May 2015 or such other date as determined by HKSCC or HKSCC Nominees.
- If you have instructed your broker or custodian to give electronic application instructions on your behalf, you can also check the number of Hong Kong Offer Shares allotted to you and the amount of refund monies (if any) payable to you with that broker or custodian.
- If you have applied as a CCASS Investor Participant, you can also check the number of Hong Kong Offer Shares allotted to you and the amount of refund monies (if any) payable to you via the CCASS Phone System and the CCASS Internet System (under the procedures contained in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time) on Tuesday, 26 May 2015. Immediately following the credit of the Hong Kong Offer Shares to your stock account and the credit of refund monies to your bank account, HKSCC will also make available to you an activity statement showing the number of Hong Kong Offer Shares credited to your CCASS Investor Participant stock account and the amount of refund monies (if any) credited to your designated bank account.
- Refund of your application monies (if any) in respect of wholly and partially unsuccessful applications and/or difference between the Offer Price and the maximum Offer Price per Offer Share initially paid on application (including brokerage, SFC transaction levy and the Stock Exchange trading fee but without interest) will be credited to your designated bank account or the designated bank account of your broker or custodian on Tuesday, 26 May 2015.

HOW TO APPLY FOR HONG KONG OFFER SHARES

15. ADMISSION OF THE H SHARES INTO CCASS

If the Stock Exchange grants the listing of, and permission to deal in, the H Shares and we comply with the stock admission requirements of HKSCC, the H 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 H Shares or any other date HKSCC chooses. Settlement of transactions between Exchange Participants is required to take place in CCASS on the second Business Day after any trading day.

All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

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

All necessary arrangements have been made enabling the H Shares to be admitted into CCASS.

The following is the text of a report received from the Company's reporting accountant, PricewaterhouseCoopers, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this prospectus. It is prepared and addressed to the directors of the Company and to the Sole Sponsor pursuant to the requirements of Auditing Guideline 3.340 "Prospectuses and the Reporting Accountant" issued by the Hong Kong Institute of Certified Public Accountants.



羅兵咸永道

13 May 2015

The Directors
Yunnan Water Investment Co., Limited

China Merchants Securities (HK) Co., Limited

Dear Sirs,

We report on the financial information of Yunnan Water Investment Co., Limited (the "Company") and its subsidiaries (together, the "Group"), which comprises the consolidated balance sheets as at 31 December 2012, 2013 and 2014, the balance sheets of the Company as at 31 December 2012, 2013 and 2014, the consolidated statements of comprehensive income, the consolidated statements of changes in equity and the consolidated statements of cash flows for each of the years ended 31 December 2012, 2013 and 2014 (the "Relevant Periods"), and a summary of significant accounting policies and other explanatory information. This financial information has been prepared by the directors of the Company and is set out in Sections I to III below for inclusion in Appendix I to the prospectus of the Company dated 13 May 2015 (the "Prospectus") in connection with the initial listing of H shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited.

The Company was established in the People's Republic of China (the "PRC" or "China") on 21 June 2011 as a limited liability company under the Company Laws of the PRC. Pursuant to a group reorganisation as described in Note 1.2 of Section II headed "Reorganisation" below, which was completed on 21 June 2011, the Company became the holding company of the subsidiaries now comprising the Group (the "Reorganisation").

As at the date of this report, the Company has direct and indirect interests in the subsidiaries, joint ventures and associate as set out in Note 1.3 and Note 16 of Section II below. All of these companies are private companies or, if incorporated or established outside Hong Kong, have substantially the same characteristics as a Hong Kong incorporated private company.

The audited financial statements of the Company and subsidiaries as at the date of this report for which there are statutory audit requirements have been prepared in accordance with the relevant accounting principles generally accepted in their places of incorporation. The statutory auditor of the Company for each of the years ended 31 December 2012, 2013 was ShineWing Certified Public Accountants Kunming Branch (信永中和會計師事務所昆明分所), for the year ended 31 December 2014 was Da Hua Certified Public Accountants (Special General Partnership) (大華會計師事務所(特殊普通合夥)). The details of the statutory auditors of the subsidiaries are set out in Note 1.3 of Section II below.

The directors of the Company have prepared the consolidated financial statements of the Group for the Relevant Periods in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”) (the “Underlying Financial Statements”). The directors of the Company are responsible for the preparation of the Underlying Financial Statements that gives a true and fair view in accordance with HKFRSs. We have audited the Underlying Financial Statements in accordance with Hong Kong Standards on Auditing (the “HKSAs”) issued by the HKICPA pursuant to separate terms of engagement with the Company.

The financial information has been prepared based on the Underlying Financial Statements, with no adjustment made thereon.

Directors’ Responsibility for the Financial Information

The directors of the Company are responsible for the preparation of the financial 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 financial information that is free from material misstatement, whether due to fraud or error.

Reporting Accountant’s Responsibility

Our responsibility is to express an opinion on the financial information and to report our opinion to you. We carried out our procedures in accordance with Auditing Guideline 3.340 “Prospectuses and the Reporting Accountant” issued by the HKICPA.

Opinion

In our opinion, the financial information gives, for the purpose of this report, a true and fair view of the state of affairs of the Company as at 31 December 2012, 2013 and 2014 and of the state of affairs of the Group as at 31 December 2012, 2013 and 2014 and of the Group’s results and cash flows for the Relevant Periods then ended.

I. FINANCIAL INFORMATION OF THE GROUP

The following is the financial information of the Group prepared by the directors of the Company as at 31 December 2012, 2013 and 2014 and for each of the years ended 31 December 2012, 2013 and 2014 (the "Financial Information").

(a) Consolidated statements of comprehensive income

	Note	Year ended 31 December		
		2012	2013	2014
		<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Revenue	5	398,521	688,734	1,100,761
Cost of sales	8	(258,844)	(427,995)	(767,124)
Gross profit		139,677	260,739	333,637
Other income	6	23,254	84,707	49,059
Other gains — net	7	71,927	8,942	3,273
Selling expenses	8	(8,338)	(11,215)	(13,456)
Administrative expenses	8	(40,687)	(75,448)	(125,816)
Operating profit		185,833	267,725	246,697
Finance costs — net	10	(21,361)	(23,288)	(31,482)
Share of (loss)/profit of investments accounted for using the equity method	16	(4,386)	7,796	10,942
Profit before income tax		160,086	252,233	226,157
Income tax expenses	11	(33,975)	(51,377)	(38,261)
Profit for the year		126,111	200,856	187,896
Other comprehensive income		—	—	(92)
Total comprehensive income for the year, net of tax		<u>126,111</u>	<u>200,856</u>	<u>187,804</u>
Attributable to:				
Owners of the Company	12	120,043	193,683	166,495
Non-controlling interests		<u>6,068</u>	<u>7,173</u>	<u>21,309</u>
Earnings per share for profit attributable to owners of the Company (expressed in RMB per share)				
— Basic and diluted	12	<u>0.197</u>	<u>0.269</u>	<u>0.206</u>
Dividends	13	<u>—</u>	<u>—</u>	<u>110,500</u>

(b) Consolidated balance sheets

		As at 31 December		
	Note	2012	2013	2014
		RMB'000	RMB'000	RMB'000
ASSETS				
Non-current assets				
Property, plant and equipment	18	727,519	1,019,765	1,378,952
Investment properties	19	2,163	5,371	5,042
Land use rights	17	38,961	42,957	97,870
Receivables under service concession arrangements	20	647,041	933,063	1,444,600
Amounts due from customers for contract works	25	—	—	193,924
Intangible assets	21	31,982	49,319	182,641
Investments accounted for using the equity method	16	77,012	34,236	45,178
Trade and other receivables	26	163,496	130,525	138,186
Deferred income tax assets	34	21,551	18,482	39,335
		<u>1,709,725</u>	<u>2,233,718</u>	<u>3,525,728</u>
Current assets				
Receivables under service concession arrangements	20	4,056	4,039	9,662
Available-for-sale financial assets	22	29,200	—	—
Non-current assets held-for-sale	23	—	24,134	7,500
Inventories	24	10,722	8,728	12,459
Amounts due from customers for contract works	25	—	12,539	6,455
Trade and other receivables	26	683,132	516,105	845,486
Cash and cash equivalents	27	330,393	758,146	612,649
		<u>1,057,503</u>	<u>1,323,691</u>	<u>1,494,211</u>
Total assets		<u><u>2,767,228</u></u>	<u><u>3,557,409</u></u>	<u><u>5,019,939</u></u>
EQUITY				
Equity attributable to owners of the Company				
Paid in capital/share capital	28	650,000	787,880	862,564
Other reserves	29	611,655	940,384	1,155,140
Retained earnings		170,740	339,987	366,542
		<u>1,432,395</u>	<u>2,068,251</u>	<u>2,384,246</u>
Non-controlling interests	15	<u>152,004</u>	<u>208,153</u>	<u>337,078</u>
Total equity		1,584,399	2,276,404	2,721,324

		As at 31 December		
	Note	2012	2013	2014
		RMB'000	RMB'000	RMB'000
LIABILITIES				
Non-current liabilities				
Borrowings	32	263,645	200,824	868,992
Deferred income	33	116,588	118,124	144,749
Deferred income tax liabilities	34	3,233	9,127	52,796
Provision	35	489	2,141	14,408
		<u>383,955</u>	<u>330,216</u>	<u>1,080,945</u>
Current liabilities				
Borrowings	32	471,299	454,957	270,323
Trade and other payables	31	274,166	423,176	876,698
Amounts due to customers for contract works	25	—	5,462	3,727
Current income tax liabilities		53,409	67,194	66,922
		<u>798,874</u>	<u>950,789</u>	<u>1,217,670</u>
Total liabilities		<u>1,182,829</u>	<u>1,281,005</u>	<u>2,298,615</u>
Total equity and liabilities		<u>2,767,228</u>	<u>3,557,409</u>	<u>5,019,939</u>
Net current assets		<u>258,629</u>	<u>372,902</u>	<u>276,541</u>
Total assets less current liabilities		<u>1,968,354</u>	<u>2,606,620</u>	<u>3,802,269</u>

(c) Balance sheet

		As at 31 December		
	Note	2012	2013	2014
		RMB'000	RMB'000	RMB'000
ASSETS				
Non-current assets				
Property, plant and equipment	18	3,471	24,335	33,104
Receivables under service concession arrangements	20	—	13,052	40,414
Investments in subsidiaries	15	739,629	876,829	1,145,361
Investments in an associate and joint ventures	16	85,594	25,594	25,594
Deferred income tax assets	34	1,674	5,913	16,459
Trade and other receivables	26	25,000	51,000	—
		<u>855,368</u>	<u>996,723</u>	<u>1,260,932</u>
Current assets				
Trade and other receivables	26	750,661	767,630	1,168,508
Cash and cash equivalents	27	99,219	277,677	132,089
		<u>849,880</u>	<u>1,045,307</u>	<u>1,300,597</u>
Total assets		<u><u>1,705,248</u></u>	<u><u>2,042,030</u></u>	<u><u>2,561,529</u></u>
EQUITY				
Equity attributable to owners of the Company				
Paid in capital/share capital	28	650,000	787,880	862,564
Other reserves	29	659,119	963,412	1,153,969
Retained earnings	30	94,086	70,189	6,857
Total equity		<u><u>1,403,205</u></u>	<u><u>1,821,481</u></u>	<u><u>2,023,390</u></u>
LIABILITIES				
Non-current liabilities				
Borrowings	32	—	—	396,838
Deferred income	33	—	299	1,149
		<u>—</u>	<u>299</u>	<u>397,987</u>
Current liabilities				
Borrowings	32	265,188	200,000	100,000
Trade and other payables	31	16,491	20,250	40,152
Current income tax liabilities		20,364	—	—
		<u>302,043</u>	<u>220,250</u>	<u>140,152</u>
Total liabilities		<u>302,043</u>	<u>220,549</u>	<u>538,139</u>
Total equity and liabilities		<u><u>1,705,248</u></u>	<u><u>2,042,030</u></u>	<u><u>2,561,529</u></u>
Net current assets		<u><u>547,837</u></u>	<u><u>825,057</u></u>	<u><u>1,160,445</u></u>
Total assets less current liabilities		1,403,205	1,821,780	2,421,377

(d) Consolidated statements of changes in equity

	Attributable to owners of the Company					
	Paid-in capital/ share capital	Other reserves	Retained earnings	Total	Non- controlling interests	Total equity
	RMB'000 (note 28)	RMB'000 (note 29)	RMB'000	RMB'000	RMB'000	RMB'000
Balance at 1 January 2012	600,000	581,887	66,447	1,248,334	140,546	1,388,880
Total comprehensive income for the year						
Profit for the year	—	—	120,043	120,043	6,068	126,111
Total transactions with owners of the Group, recognised directly in equity						
Capital injection (note 28(a))	50,000	19,118	—	69,118	—	69,118
Business combination under common control (note 29(b))	—	(5,100)	—	(5,100)	5,100	—
Capital injection by non-controlling interests (note 29(b))	—	—	—	—	290	290
Transfer to statutory reserve	—	15,750	(15,750)	—	—	—
	50,000	29,768	(15,750)	64,018	5,390	69,408
Balance at 31 December 2012	<u>650,000</u>	<u>611,655</u>	<u>170,740</u>	<u>1,432,395</u>	<u>152,004</u>	<u>1,584,399</u>
Balance at 1 January 2013	650,000	611,655	170,740	1,432,395	152,004	1,584,399
Total comprehensive income for the year						
Profit for the year	—	—	193,683	193,683	7,173	200,856
Total transactions with owners of the Group, recognised directly in equity						
Capital injection (note 28(c))	137,880	262,120	—	400,000	—	400,000
Contribution by Yunnan Province Water (note 29(c))	—	42,173	—	42,173	—	42,173
Capital contribution by non-controlling interests (note 15)	—	—	—	—	40,000	40,000
Acquisition of subsidiaries (note 15)	—	—	—	—	8,976	8,976
Transfer to statutory reserve	—	24,436	(24,436)	—	—	—
	137,880	328,729	(24,436)	442,173	48,976	491,149
Balance at 31 December 2013	<u>787,880</u>	<u>940,384</u>	<u>339,987</u>	<u>2,068,251</u>	<u>208,153</u>	<u>2,276,404</u>

	Attributable to owners of the Company					
	Paid-in capital/ share capital	Other reserves	Retained earnings	Total	Non- controlling interests	Total equity
	<i>RMB'000</i> <i>(note 28)</i>	<i>RMB'000</i> <i>(note 29)</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Balance at 1 January 2014	787,880	940,384	339,987	2,068,251	208,153	2,276,404
Total comprehensive income for the year						
Profit for the year	—	—	166,587	166,587	21,309	187,896
Currency translation differences	—	(92)	—	(92)	—	(92)
	—	(92)	166,587	166,495	21,309	187,804
Total transactions with owners of the Group, recognised directly in equity						
Capital injection (note 28(e))	74,684	185,316	—	260,000	—	260,000
Acquisition of subsidiaries (note 15)	—	—	—	—	73,616	73,616
Capital contribution by non-controlling interests (note 15)	—	—	—	—	34,000	34,000
Transfer to statutory reserve	—	29,532	(29,532)	—	—	—
Dividends	—	—	(110,500)	(110,500)	—	(110,500)
	74,684	214,848	(140,032)	149,500	107,616	257,116
Balance at 31 December 2014	<u>862,564</u>	<u>1,155,140</u>	<u>366,542</u>	<u>2,384,246</u>	<u>337,078</u>	<u>2,721,324</u>

(d) Consolidated statements of cash flows

	Note	Year ended 31 December		
		2012	2013	2014
		RMB'000	RMB'000	RMB'000
Cash flows from operating activities				
Cash (used in)/generated from operations	36	(45,013)	43,159	(434,454)
Income tax paid		(18,083)	(37,471)	(53,796)
Interest paid		(28,625)	(25,879)	(54,109)
Net cash used in operating activities		(91,721)	(20,191)	(542,359)
Cash flows from investing activities				
Acquisition of subsidiaries, net of cash acquired		27,243	(17,169)	(136,935)
Prepayments for acquisition of a subsidiary		—	(20,000)	—
Acquisition of joint ventures and associates		(5,100)	—	—
Purchases of property, plant and equipment, land use right and other intangible assets		(106,879)	(333,237)	(305,380)
Purchases of available-for-sale financial assets		(29,200)	—	(29,000)
Proceeds from disposal of available-for-sale financial assets		—	29,200	29,453
Funds granted to related parties		(208,409)	(159,972)	(265,215)
Funds granted to third parties		(30,000)	—	—
Funds repayments received from related parties		163,402	410,453	211,654
Funds repayments received from third parties		14,700	30,000	86,746
Government grants relating to purchase of property, plant and equipment and intangible assets		62,720	6,022	54,219
Proceeds from disposal of investments accounted for using the equity method		93,124	39,216	20,000
Proceeds from disposal of property, plant and equipment	36	120	520	25,778
Interest received		6,421	5,380	4,888
Net cash used in investing activities		(11,858)	(9,587)	(303,792)
Cash flows from financing activities				
Capital injections from equity holders		35,540	482,173	294,000
Proceeds from issuance of bonds		—	—	396,247
Funds from related parties		80,229	121,921	6,940
Proceeds from borrowings		106,766	332,854	499,055
Repayments of borrowings		(139,514)	(476,759)	(353,553)
Payments for listing expenses		—	(2,658)	(31,525)
Dividends paid		—	—	(110,500)
Net cash generated from financing activities		83,021	457,531	700,664
Net (decrease)/increase in cash and cash equivalents		(20,558)	427,753	(145,487)
Cash and cash equivalents at beginning of year		350,951	330,393	758,146
Exchange losses on cash and cash equivalents		—	—	(10)
Cash and cash equivalents at end of year		330,393	758,146	612,649

II. NOTES TO THE FINANCIAL INFORMATION**1. General information and basis of presentation****1.1 General information**

Yunnan Water Investment Co., Limited (the “Company”, formerly known as Yunnan Water Industry Investment and Development Co., Limited) was incorporated in Yunnan Province of the People’s Republic of China (the “PRC”) on 21 June 2011. On 22 July 2014, the Company was converted from a limited liability company into a joint stock limited liability company with registered capital of RMB787,880,000. The address of its registered office is 16th Floor, Block A Hecheng International, 1088 Haiyuan Zhong Road, Gaoxin District, Kunming, Yunnan Province, the PRC. The Company is an investment holding company, the Company and its subsidiaries (together the “Group”) are principally engaged in the development, design, construction, operation and maintenance of municipal water supply and wastewater treatment facilities (the “Listing Business”) in the PRC.

The Financial Information is presented in thousands of Renminbi (“RMB”), unless otherwise stated.

1.2 Reorganisation

Prior to the incorporation of the Company and the group reorganisation (the “Reorganisation”, as explained below), Yunnan Province Water Industry Investment Co., Ltd. (“Yunnan Province Water”), a company incorporated in the PRC, and its subsidiaries carrying out the Listing Business were wholly owned by Yunnan Metropolitan Construction Investment Co., Ltd. (“YMCI”).

On 21 June 2011, the Company was incorporated in the PRC by Yunnan Province Water and Beijing OriginWater Technology Co., Ltd. (“Beijing OriginWater”). Upon the incorporation of the Company, its registered capital was RMB600,000,000 which was paid up as follows:

- a) Yunnan Province Water injected the Listing Business into the Company, at a consideration of RMB663,524,000 (the carrying amount of the net assets of the Listing Business is RMB600,930,000), in exchange of 51% equity interests in the Company plus a cash consideration of RMB66,952,000 payable by the Company. The paid-in capital assigned to Yunnan Province Water is RMB306,000,000.
- b) Beijing OriginWater invested cash of RMB600,000,000 into the Company in exchange for 49% equity interest of the Company. The paid-in capital assigned to Beijing OriginWater is RMB294,000,000.

As a result of the Reorganisation, the Company became the holding company of the subsidiaries and joint venture companies carrying out the Listing Business which were originally held by YMCI.

1.3 Principal subsidiaries

At the date of this report, the Company had direct or indirect interests in the following subsidiaries, all of which are private limited liability companies and the particulars of which are set out below:

Name	Place and date of incorporation /registration	Issued and fully paid-up capital /registered capital	Percentage of equity attributable to the Company				Principal activities	Name of statutory auditors		
			31 December		31 December 2014 and the date of this report					
			2012	2013						
										2012
(i) Directly held										
大理水務產業投資有限公司 Dali Water Industry Investment Co., Ltd. ("Dali Water")	PRC, 27 March 1997	RMB36,940,000	100	100	45*	Sewage treatment and water distribution	(i)	(i)	(ii)	
紅河州水務產業投資有限公司 Honghe Water Industry Investment Co., Ltd.	PRC, 14 November 2012	RMB30,000,000	100	100	100	Sewage treatment	(i)	(i)	(ii)	
雲南城投碧水源水務科技有限責任公司 Yunnan OriginWater Technology Company Limited ("OriginWater Technology")	PRC, 2 February 2010	RMB60,000,000	100	100	100	Environmental protection equipment sales and Construction	(i)	(i)	(ii)	
勐臘縣給排水有限責任公司 Mengla Water Supply and Drainage Co., Ltd.	PRC, 9 September 2011	RMB21,000,000	51	51	51	Sewage treatment and water distribution	(i)	(i)	(ii)	
景洪市給排水有限責任公司 Jinghong Water Supply and Drainage Co., Ltd.	PRC, 7 April 2008	RMB80,000,000	51	51	51	Sewage treatment and water distribution	(i)	(i)	(ii)	
騰沖縣水務產業投資有限公司 Tengchong Water Industry Investment Co., Ltd.	PRC, 17 September 2009	RMB30,000,000	100	100	100	Sewage treatment	(i)	(i)	(ii)	
魯甸縣水務產業投資有限公司 Ludian Water Industry Investment Co., Ltd.	PRC, 21 October 2009	RMB6,000,000	100	100	100	Sewage treatment	(i)	(i)	(ii)	
永仁縣水務產業投資有限公司 Yongren Water Industry Investment Co.. Ltd.	PRC, 21 October 2009	RMB3,500,000	100	100	100	Sewage treatment	(i)	(i)	(ii)	

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			31 December		31 December 2014 and the date of this report	2012		2013	2014	
			2012	2013						
大姚縣水務產業投資有限公司 Dayao Water Industry Investment Co., Ltd.	PRC, 21 October 2009	RMB6,500,000	100	100	100	Sewage treatment	(i)	(i)	(ii)	
鹽津縣水務產業投資有限公司 Yanjin Water Industry Investment Co., Ltd.	PRC, 21 October 2009	RMB5,000,000	100	100	100	Construction service	(i)	(i)	(ii)	
建水縣水務產業投資有限公司 Jianshui Water Industry Investment Co., Ltd.	PRC, 21 October 2009	RMB20,000,000	100	100	100	Sewage treatment	(i)	(i)	(ii)	
瀘西縣水務產業投資有限公司 Luxi Water Industry Investment Co., Ltd.	PRC, 9 November 2009	RMB5,000,000	100	100	100	Sewage treatment	(i)	(i)	(ii)	
瀘水縣水務產業投資有限公司 Lushui Water Industry Investment Co., Ltd.	PRC, 10 December 2009	RMB5,600,000	100	100	100	Sewage treatment	(i)	(i)	(ii)	
蘭坪縣水務產業投資有限公司 Lanping Water Industry Investment Co., Ltd.	PRC, 15 December 2009	RMB5,000,000	100	100	100	Sewage treatment	(i)	(i)	(ii)	
姚安縣水務產業投資有限公司 Yaoan Water Industry Investment Co., Ltd.	PRC, 27 January 2010	RMB4,500,000	100	100	100	Sewage treatment	(i)	(i)	(ii)	
祿豐縣水務產業投資有限公司 Lufeng Water Industry Investment Co., Ltd.	PRC, 26 January 2010	RMB9,000,000	100	100	100	Sewage treatment	(i)	(i)	(ii)	
墨江水務產業投資有限公司 Mojiang Water Industry Investment Co., Ltd.	PRC, 3 February 2010	RMB6,500,000	100	100	100	Sewage treatment	(i)	(i)	(ii)	
景谷水務產業投資有限公司 Jinggu Water Industry Investment Co., Ltd.	PRC, 4 February 2010	RMB5,800,000	100	100	100	Sewage treatment	(i)	(i)	(ii)	
雙江水務產業投資有限公司 Shuangjiang Water Industry Investment Co., Ltd.	PRC, 27 January 2010	RMB5,800,000	100	100	100	Sewage treatment	(i)	(i)	(ii)	
寧洱水務產業投資有限公司 Ninger Water Industry Investment Co., Ltd.	PRC, 25 January 2010	RMB6,800,000	100	100	100	Sewage treatment	(i)	(i)	(ii)	

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			31 December		31 December 2014 and the date of this report	2012		2013	2014	
			2012	2013						
南澗縣水務產業投資有限公司 Nanjian Water Industry Investment Co., Ltd.	PRC, 12 March 2010	RMB3,500,000	100	100	100	Sewage treatment	(i)	(i)	(ii)	
滄源侗族自治縣水務產業投資有限公司 Cangyuan Water Industry Investment Co., Ltd.	PRC, 1 June 2010	RMB3,600,000	100	100	100	Sewage treatment	(i)	(i)	(ii)	
耿馬水務產業投資有限公司 Gengma Water Industry Investment Co., Ltd.	PRC, 3 June 2010	RMB5,000,000	100	100	100	Sewage treatment	(i)	(i)	(ii)	
鶴慶縣水務產業投資有限公司 Heqing Water Industry Investment Co., Ltd. ("Heqing Water")	PRC, 19 May 2010	RMB4,000,000	100	100	100	Sewage treatment	(i)	(i)	(ii)	
勐海水務產業有限公司 Menghai Water Industry Co., Ltd.	PRC, 4 September 2010	RMB5,000,000	100	100	100	Sewage treatment	(i)	(i)	(ii)	
彌勒市水務產業投資有限公司 Mile Water Industry Investment Co., Ltd.	PRC, 3 December 2010	RMB10,000,000	100	100	100	Sewage treatment	(i)	(i)	(ii)	
瀾滄水務產業投資有限公司 Lancang Water Industry Investment Co., Ltd.	PRC, 9 December 2010	RMB5,500,000	100	100	100	Sewage treatment	(i)	(i)	(ii)	
大關縣水務產業投資有限公司 Daguan Water Industry Investment Co., Ltd.	PRC, 10 May 2011	RMB2,500,000	100	100	100	Sewage treatment	(i)	(i)	(ii)	
威信縣水務產業投資有限公司 Weixin Water Industry Investment Co., Ltd.	PRC, 10 May 2011	RMB4,500,000	100	100	100	Sewage treatment	(i)	(i)	(ii)	
盈江水務產業投資有限公司 Yingjiang Water Industry Investment Co., Ltd.	PRC, 4 May 2011	RMB6,800,000	100	100	100	Sewage treatment	(i)	(i)	(ii)	
水富縣水務產業投資有限公司 Shuifu Water Industry Investment Co., Ltd.	PRC 4 May 2011	RMB7,500,000	100	100	100	Sewage treatment	(i)	(i)	(ii)	

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			31 December		31 December 2014 and the date of this report	2012		2013	2014	
			2012	2013						
孟連水務產業投資有限公司 Menglian Water Industry Investment Co., Ltd.	PRC 19 May 2011	RMB4,500,000	100	100	100	Sewage treatment	(i)	(i)	(ii)	
梁河縣水務產業投資有限公司 Lianghe Water Industry Investment Co., Ltd.	PRC 15 June 2011	RMB3,500,000	100	100	100	Sewage treatment	(i)	(i)	(ii)	
永平縣水務產業投資有限公司 Yongping Water Industry Investment Co., Ltd.	PRC 16 August 2011	RMB3,500,000	100	100	100	Sewage treatment	(i)	(i)	(ii)	
劍川縣水務產業投資有限公司 Jianchuan Water Industry Investment Co., Ltd.	PRC 27 July 2011	RMB3,500,000	100	100	—	Sewage treatment	(i)	(i)	(ii)	
隴川水務產業有限公司 Longchuan Water Industry Co., Ltd.	PRC 12 August 2011	RMB3,500,000	100	100	100	Sewage treatment	(i)	(i)	(ii)	
鎮雄縣水務產業投資有限公司 Zhenxiong Water Industry Investment Co., Ltd.	PRC 18 August 2011	RMB10,000,000	100	100	100	Sewage treatment	(i)	(i)	(ii)	
永善縣水務產業投資有限公司 Yongshan Water Industry Investment Co., Ltd.	PRC 31 October 2012	RMB3,500,000	100	100	100	Sewage treatment	(i)	(i)	(ii)	
沙灣縣浩瑞水務投資有限公司 Shawan Haorui Water Industry Investment Co., Ltd.	PRC 16 May 2013	RMB30,000,000	—	100	100	Construction service	N.A.	(i)	(ii)	
額敏縣水務產業投資有限公司 Emin Water Industry Investment Co., Ltd.	PRC 18 April 2013	RMB50,000,000	—	100	100	Water distribution	N.A.	(i)	(ii)	
克拉瑪依浩瑞水務投資有限公司 Kelamayi Haorui Water Industry Investment Co., Ltd.	PRC 25 July 2013	RMB40,000,000	—	100	100	Sewage treatment	N.A.	(i)	(ii)	
雲龍縣水務產業投資有限公司 Yunlong Water Industry Investment Co., Ltd.	PRC 19 October 2010	RMB4,000,000	100	100	100	Sewage treatment and water distribution	(i)	(i)	(ii)	

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			31 December		31 December 2014 and the date of this report	2012		2013	2014	
			2012	2013						
怒江六庫給排水有限公司 Nujiang Liuku Water Supply Co., Ltd. ("Liuku Water")	PRC 14 June 2014	RMB17,110,000	—	—	100	Water distribution	N.A.	N.A.	(ii)	
北京科林皓華環境科技發展有限公司 Beijing Clean Environmental Technology Development Co., Ltd. ("Beijing Clean")	PRC 22 May 2009	RMB21,000,000	—	—	52.38	Construction service	N.A.	N.A.	(ii)	
山東省環保產業投資發展有限公司 Shandong Environmental Industry Investment and Development Co., Ltd. ("Shandong Environmental")	PRC 20 January 2014	RMB60,000,000	—	—	60	Environmental protection equipment sales	N.A.	N.A.	(ii)	
無錫中發水務投資有限公司 Wuxi Zhongfa Water Investment Co., Ltd. ("Wuxi Zhongfa Water")	PRC 5 July 2006	RMB134,000,000	—	—	75	Construction service	N.A.	N.A.	(ii)	
雲南水務二次供水有限公司 Yunnan Water Secondary Water Supply Co., Ltd.	PRC 16 June 2014	RMB10,000,000	—	—	60	Construction service	N.A.	N.A.	(ii)	
雲南國清環保節能科技工程有限公司 Yunnan Guoqing Environmental and Energy Conservation Technology and Engineering Co., Ltd. ("Guoqing Environmental")	PRC 4 January 2005	RMB13,000,000	—	60	60	Environmental protection equipment sales and operation and maintenance	N.A.	(i)	(ii)	
雲南水務工程諮詢有限公司 Yunnan Water Construction Consultation Services Co., Ltd.	PRC 29 September 2013	RMB1,000,000	—	100	100	Engineering Consultation	N.A.	(i)	(ii)	
雲南水務(香港)股份有限公司 Yunnan Water (Hong Kong) Company Limited	Hong Kong 25 April 2014	HKD120,000,000	—	—	100	Investment in sewage treatment and water distribution	N.A.	N.A.	N.A.	

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			31 December		31 December 2014 and the date of this report					
			2012	2013						
雲南滇中水務有限公司 Yunnan Dianzhong Water Co., Ltd.	PRC 14 September 2014	RMB500,000,000	—	—	80	Investment in sewage treatment and water distribution	N.A.	N.A.	(ii)	
霍爾果斯浩瑞水務投資有限公司 Huoerguosi Haorui Water Investment Co., Ltd.	PRC 15 October 2014	RMB30,000,000	—	—	100	Investment in sewage treatment and water distribution	N.A.	N.A.	N.A.	
勐臘隆盛房地產開發有限公司 Mengla Longsheng Property Development Co., Ltd.	PRC 16 October 2012	RMB1,000,000	51	51	51	Property development	(i)	(i)	(ii)	
雲南城投碧水源膜科技有限責任公司 Yunnan OriginWater Membrane Technology Co., Ltd.	PRC 13 December 2013	RMB95,000,000	—	71.93	71.93	Environmental protection equipment sales	N.A.	(i)	(ii)	
勐臘縣勐捧順通自來水有限責任公司 Mengla Mengpeng Shuntong Water Supply Co., Ltd.	PRC 27 October 2005	RMB2,000,000	51	51	51	Water distribution	(i)	(i)	(ii)	
玉溪市科林環保科技有限公司 Yuxi Clean Environmental Protection Technology Co., Ltd.	PRC 21 September 2011	RMB1,000,000	—	—	100	Garbage disposal	N.A.	N.A.	(ii)	
固安科林垃圾處理有限公司 Guan Clean Waste Treatment Co., Ltd.	PRC, 21 June 2011	RMB1,000,000	—	—	52.38	Leachate treatment	N.A.	N.A.	(ii)	
夏津皓華固廢處理有限公司 Xiajin Haohua Solid Waste Disposal Co., Ltd.	PRC, 30 March 2010	RMB1,000,000	—	—	—	Garbage disposal	N.A.	N.A.	(ii)	
山東清正新材料產業園水處理有限公司 Shandong Qingzheng New Material Water Treatment Co., Ltd.	PRC, 10 April 2014	RMB4,000,000	—	—	60	Sewage treatment and water distribution	N.A.	N.A.	(ii)	

Name	Place and date of incorporation /registration	Issued and fully paid-up capital /registered capital	Percentage of equity attributable to the Company				Name of statutory auditors		
			31 December		31 December 2014 and the date of this report	Principal activities			
			2012	2013			2012	2013	2014
山東臨港水處理有限公司 Shandong Lingang Water Treatment Co., Ltd.	PRC 29 March 2013	RMB23,000,000	—	—	60	Sewage treatment	N.A.	N.A.	(ii)
徐州中發水務投資有限公司 Xuzhou Zhongfa Water Investment Co., Ltd.	PRC 26 November 2010	RMB20,000,000	—	—	75	Sewage treatment	N.A.	N.A.	(ii)
雲南國清晉寧水務有限公司 Yunnan Guoqing Jinning Water Co., Ltd.	PRC 11 July 2011	RMB2,000,000	—	50	50	Sewage treatment	N.A.	(i)	(ii)

* The Group has substantially controlled Dali Water through an agreement entered into with one of minority shareholders of Dali Water pursuant to which the minority shareholder confirmed to act consistently with the Group in business operation and finance decision making of Dali Water.

(i) The statutory financial statements were audited by 信永中和會計師事務所昆明分所 (“ShineWing Certified Public Accountants Kunming Branch”).

(ii) The statutory financial statements were audited by 大華會計師事務所 (特殊普通合夥) (“Da Hua Certified Public Accountants (Special General Partnership)”).

The names of these subsidiaries referred to in this report represent management's best effort at translating the Chinese names of those companies, as no English names have been registered.

1.4 Basis of presentation

Immediately prior to the Reorganisation, the Listing Business was held by YMCI. Pursuant to the Reorganisation, the Company was incorporated by Yunnan Province Water, a wholly owned subsidiary of YMCI, and the Listing Business was transferred to the Company from YMCI as the capital injection from Yunnan Province Water to the Company. The Reorganisation is merely a reorganisation of the Listing Business with no change in management of such business. Accordingly, the consolidated financial information of the companies now comprising the Group is presented using the carrying values of the Listing Business under YMCI for all the years and periods presented.

For companies acquired from a third party during each of the years ended 31 December 2012, 2013 and 2014, they are included in the consolidated financial information of the Group from the date of the acquisition and to date of disposal.

For acquisitions incurred during the years ended 31 December 2012, 2013 and 2014, they are disclosed in note 38.

Intercompany transactions, balances and unrealised gains/losses on transactions between group companies are eliminated on consolidation.

2. Summary of significant accounting policies

The principal accounting policies applied in the preparation of the Financial Information are set out below. These policies have been consistently applied to all the years and periods presented, unless otherwise stated.

2.1 Basis of preparation

The Financial Information of the Company has been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") are set out below. The Financial Information has been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets, which are carried at fair value.

The consolidated financial statements are prepared in accordance with the applicable requirements of the predecessor Companies Ordinance (Cap. 32).

The preparation of Financial Information in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the Financial Information are disclosed in note 4.

(a) *New standards and interpretations not yet adopted*

Up to the date of issuance of this report, the HKICPA has issued the following new standards, amendments and interpretations which are related to the Group's operation but not yet effective for the years ended 31 December 2012, 2013 and 2014 and which have not been early adopted.

		Effective for annual periods beginning on or after
HKAS 27 (Amendment)	Equity Method in Separate Financial Statements	1 January 2016
HKAS 28 (Amendment)	Sale or Contribution of Assets Between an Investor and Its Associate or Joint Venture	1 January 2016
HKAS 36 and HKAS 38 (Amendment)	Classification of acceptable methods of depreciation and amortisation	1 January 2016
HKFRS 9	Financial instruments	1 January 2018
HKFRS 7 & HKFRS 9 (Amendment)	Mandatory effective date & transition disclosures	1 January 2018
HKFRS 15	Revenue from contracts with consumers	1 January 2017
HKFRS 11 (Amendment)	Accounting for acquisition of interests in joint operations	1 January 2016
HKFRS 14	Regulatory deferral accounts	1 January 2016
HKFRSs (Amendment)	Annual improvement to 2012 — 2014 cycle	1 July 2016

The Group is in the process of making an assessment of the impact of the new standards, amendments to the standards and interpretations but is not yet in a position to state whether these new standards, amendments to standards and interpretations would have a significant impact to the Group's results of operations and financial position.

(b) *New Hong Kong Companies Ordinance (Cap. 622)*

In addition, the requirements of Part 9 "Accounts and Audit" of the new Hong Kong Companies Ordinance (Cap. 622) come into operation as from the Company's first financial year commencing on or after 3 March 2014 in accordance with section 358 of that Ordinance. The Group is in the process of making an assessment of expected impact of the changes in the Companies Ordinance on the consolidated financial statements in the period of initial application of Part 9 of the new Hong Kong Companies Ordinance (Cap. 622). So far it has concluded that the impact is unlikely to be significant and only the presentation and the disclosure of information in the consolidated financial statements will be affected.

2.2 Subsidiaries

2.2.1 Consolidation

A subsidiary is an entity (including a structured entity) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

(a) Business combination not under common control

The Group applies the acquisition method to account for business combinations other than those which are under common control. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The Group recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis, either at fair value or at the non-controlling interest's proportionate share of the recognised amounts of acquiree's identifiable net assets.

Acquisition-related costs are expensed as incurred.

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is re-measured to fair value at the acquisition date; any gains or losses arising from such re-measurement are recognised in profit or loss.

Any contingent consideration to be transferred by the Group is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognised in accordance with HKAS 39 either in profit or loss or as a change to other comprehensive income. Contingent consideration that is classified as equity is not remeasured, and its subsequent settlement is accounted for within equity.

The excess of the consideration transferred the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. If the total of consideration transferred, non-controlling interest recognised and previously held interest measured is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the income statement.

Intra-group transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated. When necessary, amounts reported by subsidiaries have been adjusted to conform with the Group's accounting policies.

(b) Business combination under common control

The consolidated financial statements incorporate the financial statements of the combining entities or businesses in which the common control combination occurs as if they had been combined from the date when the combining entities or businesses first came under the control of the controlling party.

The net assets of the combining entities or businesses are combined using the existing book values from the controlling parties' perspective. No amount is recognised in consideration for goodwill or excess of acquirers' interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost at the time of common control combination, to the extent of the continuation of the controlling party's interest.

The consolidated income statement includes the results of each of the combining entities or businesses from the earliest date presented or since the date when the combining entities or businesses first came under the common control, where there is a shorter period, regardless of the date of the common control combination.

The comparative amounts in the consolidated financial statements are presented as if the entities or businesses had been combined at the previous balance sheet date or when they first came under common control, whichever is earlier.

A uniform set of accounting policies is adopted by those entities. All intra-group transactions, balances and unrealised gains on transactions between combining entities or businesses are eliminated on consolidation.

Transaction costs, including professional fees, registration fees, costs of furnishing information to shareholders, costs incurred in combining operations of the previously separate businesses, etc., incurred in relation to the common control combination that is to be accounted for by using merger accounting is recognised as an expense in the year in which it is incurred.

(c) Changes in ownership interests in subsidiaries without change of control

Transactions with non-controlling interests that do not result in loss of control are accounted for as equity transactions — that is, as transactions with the owners of the subsidiary in their capacity as owners. The difference between fair value of any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

(d) *Disposal of subsidiaries*

When the Group ceases to have control, any retained interest in the entity is re-measured to its fair value at the date when control is lost, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

2.2.2 *Separate financial statements*

Investments in subsidiaries are accounted for at cost less impairment. Cost also includes direct attributable costs of investment. The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable.

Impairment testing of the investments in subsidiaries is required upon receiving a dividend from these investments if the dividend exceeds the total comprehensive income of the subsidiary in the period the dividend is declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the consolidated financial statements of the investee's net assets including goodwill.

2.3 *Associate*

An associate is an entity over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting. Under the equity method, the investment is initially recognised at cost, and the carrying amount is increased or decreased to recognise the investor's share of the profit or loss of the investee after the date of acquisition. Upon the acquisition of the ownership interest in an associate, any difference between the cost of the associate and the group's share of the net fair value of the associate's identifiable assets and liabilities is accounted for as goodwill.

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income is reclassified to profit or loss where appropriate.

The Group's share of post-acquisition profit or loss is recognised in the consolidated income statement, and its share of post-acquisition movements in other comprehensive income is recognised in other comprehensive income with a corresponding adjustment to the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate.

The Group determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognises the amount adjacent to “share of profit/(loss) of investment accounted for using the equity method” in the consolidated income statement.

Profits and losses resulting from upstream and downstream transactions between the Group and its associate are recognised in the Group's financial information only to the extent of unrelated investor's interests in the associates. Unrealised losses are eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

Gains or losses on dilution of equity interest in associates are recognised in the income statement.

2.4 Joint arrangements

Under HKFRS 11 investments in joint arrangements are classified as either joint operations or joint ventures depending on the contractual rights and obligations of each investor. The Group has assessed the nature of its joint arrangements and determined them to be joint ventures. Joint ventures are accounted for using the equity method.

Under the equity method of accounting, interests in joint ventures are initially recognised at cost and adjusted thereafter to recognise the Group's share of the post-acquisition profits or losses and movements in other comprehensive income. When the Group's share of losses in a joint venture equals or exceeds its interests in the joint ventures (which includes any long-term interests that, in substance, form part of the Group's net investment in the joint ventures), the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the joint ventures.

Unrealised gains on transactions between the Group and its joint ventures are eliminated to the extent of the Group's interest in the joint ventures. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

2.5 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the executive directors of the Company that makes strategic decisions of the Group.

2.6 Foreign currency translation

(a) Functional and presentation currency

Items included in the financial statements of each of the group entities are measured using the currency of the primary economic environment in which the entity operates (the “functional currency”). This Financial Information is presented in RMB, which is the Group’s presentation currency and the Company’s functional currency.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation when items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the consolidated income statements, except when deferred in equity as qualifying cash flow hedges and qualifying net investment hedges.

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the consolidated income statement within “Finance costs — net”. All other foreign exchange gains and losses are presented in the income statement within “Other gains — net”.

2.7 Property, plant and equipment

Plants and buildings comprise mainly factories and offices. All property, plant and equipment is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Cost may also include transfers from equity of any gains/losses on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment.

Subsequent costs are included in the asset’s carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the consolidated income statement during the Relevant Periods in which they are incurred.

Depreciation on property, plant and equipment is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows:

Plants and buildings	20-50 years
Machinery	10-30 years
Motor Vehicles	6 years
Electronic equipment and others	5-10 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

Construction in progress represents plant under construction, which is stated at actual construction cost less any impairment loss. Construction in progress is transferred to fixed assets when completed and ready for use.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (note 2.13).

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within "other gains" in the consolidated income statements.

2.8 Investment properties

Investment properties are interests in land and buildings held to earn rental income and/or for capital appreciation, rather than for use in the production or supply of goods or services or for administrative purposes; or for sale in the ordinary course of business. Investment properties are measured initially at cost, including transaction costs.

Subsequent to initial recognition, investment properties are stated at cost less accumulated depreciation and any impairment losses.

Depreciation is calculated on the straight-line basis to write off the cost of each item of investment properties to its residual value over its estimated useful life. The estimated useful life is as follows:

Plant and buildings	30-50 years

2.9 Intangible assets

(a) *Goodwill*

Goodwill arises on the acquisition of subsidiaries represents the excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identified net assets acquired.

For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the cash-generating units ("CGUs"), or groups of CGUs, that is expected to benefit from the synergies of the combination. Each unit or group of units to which the goodwill is allocated represents the lowest level within the entity at which the goodwill is monitored for internal management purposes. Goodwill is monitored at the operating segment level.

Goodwill impairment reviews are undertaken annually or more frequently if events or changes in circumstances indicate a potential impairment. The carrying value of goodwill is compared to the recoverable amount, which is the higher of value in use and the fair value less costs of disposal. Any impairment is recognised immediately as an expense and is not subsequently reversed.

(b) *Operating concessions*

The detail accounting policy of operating concessions please refer to note 2.12.

(c) *Computer software*

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised over their estimated useful lives.

(d) *Development expenditure*

When the future economic benefits become apparent as a project progresses into the development stage the costs incurred on development projects (relating to the design and testing of new or improved products) are capitalised as intangible assets when recognition criteria are fulfilled and tests for impairment are performed annually. Other development expenditures that do not meet those criteria are recognised as expenses as incurred. Development costs previously recognised as expenses are not recognised as assets in subsequent periods. Capitalised development costs are amortised from the point at which the assets are ready for use on a straight-line basis over their estimated useful lives.

(e) Operating contract rights

Operating contract rights represent the fair value of water treatment plants' operating rights acquired through business combination. These intangible assets are amortised on the straight-line basis over the remaining period of the operating contract rights.

2.10 Land use rights

Land use rights represent prepaid operating lease payments for land less accumulated amortisation and any impairment losses. Amortisation is calculated using the straight-line method to allocate the prepaid operating lease payments for land over the remaining lease term or the operating license period, whichever is shorter.

Land use rights

40-50 years

2.11 Non-current assets (or disposal groups) held-for-sale

Non-current assets (or disposal groups) are classified as held for sale when their carrying amount is to be recovered principally through a sale transaction and a sale is considered highly probable. The non-current assets (except for certain assets as explained below) or disposal groups are stated at the lower of carrying amount and fair value less costs to sell. Deferred tax assets, assets arising from employee benefits, financial assets (other than investments in subsidiaries and associates) and investment properties, even if held for sale, would continue to be measured in accordance with the policies set out elsewhere in note 2.

2.12 Service concession arrangements

The Group has entered into a number of service concession arrangements with certain governmental authorities or their designees (the "Grantors"). The service concession arrangements consist of Build-Operate-Transfer (the "BOT") arrangements and Transfer-Operate-Transfer (the "TOT") arrangements. Under the BOT arrangements, the Group carries out construction work of the sewage and reclaimed water treatment or water distribution service for the Grantors and receives in return a right to operate the service project concerned for a specified period of time (the "operation period") in accordance with the pre-established conditions set by the Grantors, the service project should be transferred to the Grantors with nil consideration at the end of the operation period. A TOT arrangement is similar to a BOT arrangement, except that the Group pays consideration for the right to operate the sewage and reclaimed water treatment or water distribution service that has been built.

(a) Consideration given by the Grantor

A financial asset (receivable under a service concession arrangements) is recognised to the extent that the Group has an unconditional right to receive cash or another financial asset from the Grantor for the construction services rendered and/or the consideration paid and payable by the Group to the Grantor. The Group has an unconditional right to receive cash if the Grantor contractually guarantees to pay the Group specified or determinable amounts or

the shortfall, if any, between amounts received from the users of the public service and specified or determinable amounts. The financial asset (receivable under a service concession arrangements) is accounted for in accordance with the policy set out for loans and receivables under "Financial assets" below.

An intangible asset (operating concession) is recognised to the extent that the Group receives a right to charge users of public service, which is not an unconditional right to receive cash because the amounts are contingent on the extent that the public uses and service. The intangible asset (operating concession) is accounted for in accordance with the policy set out for "Intangible assets" above.

If the Group is paid for the construction services partly by a financial asset and partly by an intangible asset, then each component of the consideration is accounted for separately and is recognised initially at the fair value of the consideration.

(b) *Construction and upgrade services*

Revenue and costs relating to construction or upgrade services are accounted for in accordance with the policy for "Construction contracts" below.

(c) *Operating service*

Revenue relating to operating service 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.

(d) *Contractual obligations to restore the infrastructure to a specified level of serviceability*

The Group has contractual obligations which it must fulfil as a condition of its licences, than is (i) to maintain the sewage and reclaimed water treatment and water distribution plants it operates to a specified level of serviceability and/or (ii) to restore the plants to a specified condition before they are handed over to the Grantor at the end of the service concession arrangements. These contractual obligations to maintain or restore the sewage and reclaimed water treatment and water distribution plants, except for upgrade element, are recognised and measured in accordance with the policy set out for "Provision" below.

2.13 Impairment of non-financial assets

Assets that have an indefinite useful life or not yet available for use are not subject to amortisation and are tested annually for impairment. Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's

fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

2.14 Financial assets

2.14.1 Classification

The Group classifies its financial assets in the following categories: loans and receivables and available for sale. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

(a) *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for the amounts that are settled or expected to be settled more than 12 months after the end of the reporting period. These are classified as non-current assets. The Group's loans and receivables comprise "trade and other receivables", "receivables under service concession arrangements" and "cash and cash equivalents" in the consolidated balance sheet.

(b) *Available-for-sale financial assets*

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless the investment matures or management intends to dispose of it within 12 months of the end of the reporting period.

2.14.2 Recognition and measurement

Regular way purchases and sales of financial assets are recognised on the trade-date — the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in the income statement. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets are subsequently carried at fair value. Loans and receivables are subsequently carried at amortised cost using the effective interest method.

Changes in the fair value of monetary and non-monetary securities classified as available for sale are recognised in other comprehensive income.

When securities classified as available for sale are sold or impaired, the accumulated fair value adjustments recognised in equity are included in the income statement as “other gains - net”.

Interest on available-for-sale securities calculated using the effective interest method is recognised in the income statement as part of other income. Dividends on available-for-sale equity instruments are recognised in the consolidated income statement as part of other income when the Group's right to receive payments is established.

2.15 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the consolidated balance sheets when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously.

2.16 Impairment of financial assets

(a) *Assets carried at amortised cost*

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a “loss event”) and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the debtors 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 where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as construction delays due to fire, earthquake or other natural disasters, changes in arrears or economic conditions that correlate with defaults.

For loans and receivables category, the amount of the loss 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 been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in the consolidated income statement. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Group may measure impairment on the basis of an instrument using an observable market price.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in the consolidated income statement.

(b) Assets classified as available for sale

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. For debt securities, the Group uses the criteria referred to in (a) above. In the case of equity investments classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is also evidence that the assets are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss — measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss — is removed from equity and recognised in profit or loss. Impairment losses recognised in the consolidated income statement on equity instruments are not reversed through the consolidated income statement. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through the consolidated income statement.

2.17 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted average method. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expense.

2.18 Construction contracts

A construction contract is defined by HKAS 11, "Construction contracts", as a contract specifically negotiated for the construction of an asset.

When the outcome of a construction contract can be estimated reliably and it is probable that the contract will be profitable, contract revenue is recognised over the period of the contract by reference to the stage of completion. Contract costs are recognised as expenses by reference to the stage of completion of the contract activity at the end of the reporting period. When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

When the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised only to the extent of contract costs incurred that are likely to be recoverable.

Variations in contract work, claims and incentive payments are included in contract revenue to the extent that may have been agreed with the customer and are capable of being reliably measured.

The Group uses the “percentage-of-completion” method to determine the appropriate amount to recognise in a given period. The stage of completion is measured by reference to the contract costs incurred up to the end of the reporting period as a percentage of total estimated costs for each contract. Costs incurred in the year in connection with future activity on a contract are excluded from contract costs in determining the stage of completion.

On the balance sheet, the Group reports the net contract position for each contract as either an asset or a liability. A contract represents an asset where costs incurred plus recognised profits (less recognised losses) exceed progress billings; a contract represents a liability where the opposite is the case.

2.19 Trade and other receivables

Trade receivables are amounts due from customers for merchandise sold or services performed in the ordinary course of business. If collection of trade and other receivables is expected in one year or less, they are classified as current assets. If not, they are presented as non-current assets.

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment.

2.20 Cash

In the consolidated statements of cash flows, cash and cash equivalents includes cash in hand and deposits held at call with banks.

2.21 Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

2.22 Trade and other payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Trade and other payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

2.23 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the consolidated income statements over the period of the borrowings using the effective interest method.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a pre-payment for liquidity services and amortised over the period of the facility to which it relates.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period.

2.24 Borrowing costs

General and specific borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as 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 eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

2.25 Current and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in the income statement, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case the tax is also recognised in other comprehensive income or directly in equity, respectively.

(a) *Current income tax*

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company's subsidiaries and associates operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

(b) *Deferred income tax*

Inside basis differences

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the Financial Information. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Outside basis differences

Deferred income tax liabilities are provided on taxable temporary differences arising from investments in subsidiaries, associates and joint arrangements, except for deferred income tax liability where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future. Generally the Group is unable to control the reversal of the temporary difference for associates. Only where there is an agreement in place that gives the Group the ability to control the reversal of the temporary difference not recognised.

Deferred income tax assets are recognised on deductible temporary differences arising from investments in subsidiaries, associates and joint arrangements only to the extent that it is probable the temporary difference will reverse in the future and there is sufficient taxable profit available against which the temporary difference can be utilised.

(c) *Offsetting*

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

2.26 Employee benefits

In accordance with the rules and regulations in the PRC, the PRC based employees of the Group participate in various defined contribution retirement benefit plans organised by the relevant municipal and provincial governments in the PRC under which the Group and the PRC based employees are required to make monthly contributions to these plans calculated as a percentage of the employees' salaries.

The municipal and provincial governments undertake to assume the retirement benefit obligations of all existing and future retired PRC based employees' payable under the plans described above. Other than the monthly contributions, the Group has no further obligation for the payment of retirement and other post-retirement benefits of its employees. The assets of these plans are held separately from those of the Group in independently administrated funds managed by the PRC government.

The Group's contributions to the defined contribution retirement schemes are expensed as incurred.

2.27 Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

2.28 Government grants

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions.

Government grants relating to costs are deferred and recognised in the consolidated income statement over the period necessary to match them with the costs that they are intended to compensate.

Government grants relating to purchase of property, plant and equipment and intangible assets are included in non-current liabilities as deferred government grants and are credited to the consolidated income statement on a straight-line basis over the expected lives of the related assets.

2.29 Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable, and represents amounts receivable for goods supplied, stated net of discounts returns and value added taxes. The Group recognises revenue when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to the entity; and when specific criteria have been met for each of the Group's activities, as described below. The Group bases its estimates of return on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

(a) Sales of water and goods

Sales of water and goods are recognised when a Group entity has delivered products to the customer; the customer has accepted the products and collectability of the related receivables is reasonably assured.

(b) Sales from construction contracts

Income from construction service is recognised on the percentage-of-completion method, as further explained in the accounting policy for "construction contracts" above (note 2.18).

(c) Sales of service

Revenue from wastewater treatment operation and other services is recognised when service is rendered.

(d) Rental income

Rental income from investment property is recognised in the income statement on a straight-line basis over the term of the lease.

(e) Interest income

Interest income is recognised using the effective interest method. When a loan and receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loans and receivables is recognised using the original effective interest rate.

2.30 Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

3. Financial risk management

3.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including currency risk and fair value interest rate risk and cash flow interest rate), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

(a) *Market risk*

(i) *Foreign exchange risk*

The Group operates in the PRC with most of the transactions being settled in Renminbi ("RMB"), which is the functional currency of most of the group companies. However, the Group is still exposed to foreign exchange risk arising from foreign currency exposures, primarily with respect to the Euro ("EUR"). Foreign exchange risk arises from the recognised liabilities related to construction of sewage treatment plant.

The Group currently does not have a foreign currency hedging policy, and manages its foreign currency risk by closely monitor the scale of foreign currency transactions, foreign currency assets and liabilities.

As at 31 December 2012, 2013 and 2014, the carrying amount of the Group's foreign currency denominated monetary liabilities is as follows:

	As at 31 December		
	2012	2013	2014
	RMB'000	RMB'000	RMB'000
Monetary liabilities			
— EUR	<u>31,680</u>	<u>32,065</u>	<u>27,044</u>

The following table shows the sensitivity analysis of a 5% change in RMB against EUR. The sensitivity analysis includes only EUR denominated monetary items and adjusts their translation at the year-end for a 5% change in EUR with all other variables held constant. If EUR had strengthened/weakened by 5% against RMB, the effect in the profit for the year of the Group is as follows:

	As at 31 December		
	2012	2013	2014
	RMB'000	RMB'000	RMB'000
Net profit (decrease)/increase			
— Strengthened 5%	(1,248)	(1,277)	(1,109)
— Weakened 5%	<u>1,248</u>	<u>1,277</u>	<u>1,109</u>

(ii) *Fair value and cash flow interest rate risk*

The Group's interest rate risk arises from long-term borrowings. Borrowings obtained at variable rates expose the Group to cash flow interest risk which is partially offset by cash held at variable rates. Borrowings obtained at fixed rates expose the Group to fair value interest risk.

The Group regularly reviews and monitors the mix of fixed and floating interest rate borrowings in order to manage its interest rate risk. The Group's interest-bearing bank borrowings, pledged deposits and cash and cash equivalents are stated at amortised cost and not revalued on a periodic basis. Floating rate interest income and expenses are credited/charged to profit or loss as earned/incurred.

If there would be a general increase/decrease in the market interest rates by one percentage, with all other variables held constant, the Group's consolidated pre-tax profit would have decreased/ increased by approximately RMB870,000, RMB835,000 and RMB1,070,000 for the years ended 31 December 2012, 2013 and 2014 respectively. The sensitivity analysis above has been determined assuming that the change in market interest rates had occurred at the end of each of the Relevant Periods and had applied the exposure to interest rate risk to those financial instruments in existence at those dates. The estimated one percentage point increase or decrease represents management's assessment of a reasonably possible change in market interest rates over the period until the next annual year end.

(b) *Credit risk*

Credit risk is managed on group basis. The Group's maximum exposure to credit risk in relation to financial assets is the carrying amounts of cash and cash equivalents, trade and other receivable and receivables under service concession arrangements.

For deposit with banks, the Group has limited its credit exposure by restricting their selection of banks on the reputable local listed commercial banks or state-owned banks. Management believes these financial institutions are reputable and there is no significant credit risk of loss on such assets.

For trade receivables (note 26) and service concession receivables (note 20), the customers are primarily local governments and PRC state-owned entities and management considers the credit risk is not high.

(c) ***Liquidity risk***

Cash flow forecasting is performed in the operating entities of the Group and aggregated by group financial department. Group financial department monitors rolling forecasts of the Group's liquidity requirements to ensure it has sufficient cash and cash equivalents to meet operational needs while maintaining sufficient headroom on its undrawn committed borrowing facilities (note 32) at all times so that the Group does not breach borrowing limits or covenants (where applicable) on any of its borrowing facilities.

Each subsidiary of the Group is responsible for cash flow forecast itself. The Group financial department monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows. The Group expects to fund its future cash flow needs through internally generated cash flows from operations and borrowings from financial institutions.

The table below analyses the Group's and the Company's non-derivative financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows, including interest payments computed using contractual rates, or, if floating, based on rates current at each of the ending dates of the Relevant Periods.

APPENDIX I
ACCOUNTANT'S REPORT

Group	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
As at 31 December 2012					
Financial liabilities					
Borrowings	477,938	92,648	152,161	73,520	796,267
Trade and other payables (*)	238,886	—	—	—	238,886
	<u>716,824</u>	<u>92,648</u>	<u>152,161</u>	<u>73,520</u>	<u>1,035,153</u>
As at 31 December 2013					
Financial liabilities					
Borrowings	477,992	89,690	83,692	61,864	713,238
Trade and other payables (*)	366,086	—	—	—	366,086
	<u>844,078</u>	<u>89,690</u>	<u>83,692</u>	<u>61,864</u>	<u>1,079,324</u>
As at 31 December 2014					
Financial liabilities					
Borrowings	749,994	113,860	624,858	319,714	1,808,426
Trade and other payables (*)	805,116	—	—	—	805,116
	<u>1,555,110</u>	<u>113,860</u>	<u>624,858</u>	<u>319,714</u>	<u>2,613,542</u>
Company	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
As at 31 December 2012					
Financial liabilities					
Borrowings	267,952	—	—	—	267,952
Trade and other payables (*)	12,569	—	—	—	12,569
	<u>280,521</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>280,521</u>
As at 31 December 2013					
Financial liabilities					
Borrowings	207,640	—	—	—	207,640
Trade and other payables (*)	14,783	—	—	—	14,783
	<u>222,423</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>222,423</u>
As at 31 December 2014					
Financial liabilities					
Borrowings	136,858	30,800	414,261	—	581,919
Trade and other payables (*)	29,408	—	—	—	29,408
	<u>166,266</u>	<u>30,800</u>	<u>414,261</u>	<u>—</u>	<u>611,327</u>

* Excluding staff welfare benefit payable, other taxes payable and advances.

3.2 Capital management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, or sell assets to reduce debt.

The Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (including "current and non-current borrowings" as shown in the consolidated balance sheet) less cash and cash equivalents. Total capital is calculated as "total equity" as shown in the Financial Information plus net borrowings.

	As at 31 December		
	2012	2013	2014
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Total borrowings (note 32)	734,944	655,781	1,139,315
Less: cash and cash equivalents (note 27)	(330,393)	(758,146)	(612,649)
Net borrowings	404,551	(102,365)	526,666
Total equity	1,584,399	2,276,404	2,721,324
Total capital	1,988,950	2,174,039	3,247,990
Gearing ratio	20.34%	N.A.	16.22%

The negative net borrowings as at 31 December 2013 resulted primarily from capital injection by the owners of the Group.

3.3 Financial instruments by category

(a) *Group*

	As at 31 December		
	2012	2013	2014
	RMB'000	RMB'000	RMB'000
Assets			
Trade and other receivables — excluding non-financial assets	805,463	529,943	751,224
Receivables under service concession arrangements	651,097	937,102	1,454,262
Cash and cash equivalents	330,393	758,146	612,649
Available-for-sale financial assets	<u>29,200</u>	<u>—</u>	<u>—</u>
Liabilities			
Borrowings	734,944	655,781	1,139,315
Trade and other payables	<u>238,886</u>	<u>366,086</u>	<u>805,116</u>

(b) *Company*

	As at 31 December		
	2012	2013	2014
	RMB'000	RMB'000	RMB'000
Assets			
Trade and other receivables — excluding non-financial assets	750,661	764,409	1,130,685
Receivables under service concession arrangements	—	13,052	40,414
Cash and cash equivalents	<u>99,219</u>	<u>277,677</u>	<u>132,089</u>
Liabilities			
Borrowings	265,188	200,000	496,838
Trade and other payables	<u>12,569</u>	<u>14,783</u>	<u>29,408</u>

3.4 Fair value estimation

The table below analyses the Group's financial instruments carried at fair value by level of the inputs to valuation techniques used to measure fair value. Such inputs are categorised into three levels within a fair value hierarchy as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).

- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

Group	Level 1	Level 2	Level 3	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
As at 31 December 2012				
Available-for-sales financial assets				
— Wealth management product	<u>—</u>	<u>—</u>	<u>29,200</u>	<u>29,200</u>

No financial assets and financial liabilities were measured at fair value as at 31 December 2013 and 2014.

The fair value of wealth management product is determined with reference to quoted prices provided by the bank at the end of the reporting period without any deduction for transaction costs.

4. Critical accounting estimates and judgments

Estimates and judgment used in preparing this Financial Information are evaluated and based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

(a) ***Impairment of trade and other receivables and receivables under service concession arrangements***

The Group records impairment of receivables based on an assessment made by management on the recoverability of trade and other receivables and receivables under service concession arrangements. Provisions are applied where events or changes in circumstances indicate that the balances may not be collectible. Impairment assessment requires the use of judgment and estimates. Where the expectation is different from the original estimate, such difference will impact both the carrying value of trade and other receivables and the impairment charge in the period in which such estimate has been changed.

(b) *Income taxes and deferred taxation*

The Group is subject to income taxes in the PRC. Significant judgment is required in determining the provision for income taxes. There are many transactions and calculations for which the ultimate 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, such difference will impact the income tax and deferred tax provision in the year in which such determination is made.

Deferred income tax assets relating to certain temporary differences and tax losses are recognised when management considers to be probable that future taxable profit will be available against which the temporary differences or tax losses can be utilised. The outcome of their actual utilisation may be different.

(c) *Percentage of completion of construction and service contracts*

The Group recognises revenue for construction work and services contracts according to the percentage of completion of the individual contract of construction or service work. The Group's management estimates the percentage of completion of construction or service work based on the actual cost incurred over the total budgeted cost, where the corresponding contract revenue is also estimated by management. Because of the nature of the activity undertaken in construction and service contracts, the date at which the activity is entered into and the date when the activity is completed usually fall into different accounting periods. The Group reviews and revises the estimation of both contract revenue and contract costs in the budget prepared for each construction contract and services contract as the contract progresses.

(d) *Service concession arrangements*

The fair value of the construction and upgrade service under the concession arrangement is calculated as the estimated total construction cost plus a profit margin of 2.93% to 3.93%. The profit margins are valued by an independent qualified valuer, based on prevailing market rate applicable to similar construction services rendered in similar location at date of agreement.

The Group is paid for the construction and upgrade services by a financial asset and/or an intangible asset, and each component of the operator's consideration is accounted for separately. Significant judgment is exercised in determine the fair values of the financial receivable at initial recognition. Discount rates, estimates of future cash flows and other factors are used in the valuation process. Any change in the expected cash flows will result in change in the carrying value of the financial receivable.

When the Group receives a payment during the concession period, it will apportion such payment between (i) a repayment of the financial receivable (if any), which will be used to reduce the carrying amount of financial receivables on the consolidated statements of financial position, (ii) interest income, will be recognised as revenue in profit or loss and (iii) revenue from operating the water treatment plants in the profit or loss. Revenue from operating and maintaining service is calculated based on cost plus a profit margin.

Subsequent to initial recognition, the intangible asset is measured at cost, which includes capitalised borrowing costs, less accumulated amortisation and impairment losses. The estimated useful life of an intangible asset in a service concession arrangement is the period from when the Group is able to charge the public for the use of the infrastructure to the end of the concession period.

The carrying amounts of the operation concession carried as intangible assets in the consolidated balance sheet as at 31 December 2012, 2013 and 2014 were RMB31,401,000, RMB40,701,000 and RMB146,406,000, respectively, while the receivables under service concession arrangements were RMB651,097,000, RMB937,102,000 and RMB1,454,262,000, respectively.

The operator may have contractual obligations it must fulfil as a condition of its licence (a) to maintain the infrastructure to a specified level of serviceability or (b) to restore the infrastructure to a specified condition before it is handed over to the Grantor at the end of the service arrangement. These contractual obligations to maintain or restore infrastructure, except for any upgrade element, shall be recognised and measured in accordance with HKAS 37 at the best estimate of the expenditure that would be required to settle the present obligation at the end of the reporting period in the consolidated balance sheet.

(e) *Useful lives and residual values of property, plant and equipment, and intangible assets*

The Group's management determines the useful lives, residual values and related depreciation/ amortisation charges for its property, plant and equipment and intangible assets, and reviews the useful lives and residual values periodically to ensure that the method and rates of depreciation are consistent with expected pattern of realisation of economic benefits from property, plant and equipment. This estimate is based on the historical experience of the actual residual values and useful lives of plant and equipment of similar nature and functions. It could change significantly as a result of technical innovations and competitor actions in response to server industry cycles. If there are significant changes from previous estimated useful lives and residual values, the amount of depreciation/.amortisation expenses may changes.

5. Segment information

The executive directors of the Company are the chief operating decision-maker of the Group. Management has determined the operating segments based on reports reviewed by the executive directors of the Company for the purpose of allocating resources and assessing performance.

The executive directors of the Company consider the business from product and service perspective. The Group's business were carried out in the PRC, thus, geographical segment information is not considered necessary. The Group is organised into four business segments as below:

- (a) Wastewater treatment;
- (b) Water supply;
- (c) Construction services and sales of equipment;
- (d) The "others", involves operation & maintenance services and other businesses.

Management monitors the results of the Group's operating segments separately for the purpose of making decisions about resources allocation and performance assessment. Segment performance is evaluated based on reportable segment results, which is a measure of revenue and gross profit of each operating segment.

The amounts provided to the executive directors of the Company with respect to total assets and total liabilities are measured in a manner consistent with that of the financial statements. These assets are allocated based on the operations of the segment and the physical location of the asset. These liabilities are allocated based on the operations of the segment.

Segment results and capital expenditure for the years ended 31 December 2012, 2013 and 2014 are as follows:

Year ended 31 December 2012:

	Wastewater Treatment	Water supply	Construction and equipment sales	Others	Unallocated	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Total segment revenue	224,385	106,112	133,838	1,395	—	465,730
Inter-segment revenue	—	—	(67,209)	—	—	(67,209)
Revenue from external customers	224,385	106,112	66,629	1,395	—	398,521
Gross profit	69,144	52,872	16,698	963	—	139,677
Share of profit/(loss) of investments accounted for using the equity method	813	(4,763)	13	(449)	—	(4,386)
Finance costs — net						(21,361)
Other income						23,254
Other gain — net						71,927
Selling expenses						(8,338)
Administrative expenses						(40,687)
Profit before income tax						160,086
Income tax expenses						(33,975)
Profit for the year						126,111
Depreciation and amortisation	12,165	16,095	376	—	1,564	30,200
Segment assets	1,217,019	416,384	233,592	—	900,233	2,767,228
Segment assets include:						
Investments accounted for using the equity method	26,440	50,572	—	—	—	77,012
Segment liabilities	161,655	21,861	102,628	—	896,685	1,182,829
Additions to non-current assets (other than financial instruments and deferred tax assets)	37,084	55,006	22,080	—	5,777	119,947

Year ended 31 December 2013:

	Wastewater Treatment	Water supply	Construction and equipment sales	Others	Unallocated	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Total segment revenue	323,864	175,660	296,208	3,861	—	799,593
Inter-segment revenue	—	—	(110,859)	—	—	(110,859)
Revenue from external customers	323,864	175,660	185,349	3,861	—	688,734
Gross profit	123,716	70,219	66,173	631	—	260,739
Share of profit/(loss) of investments accounted for using the equity method	7,796	—	—	—	—	7,796
Finance costs — net						(23,288)
Other income						84,707
Other gain — net						8,942
Selling expenses						(11,215)
Administrative expenses						(75,448)
Profit before income tax						252,233
Income tax expenses						(51,377)
Profit for the year						200,856
Depreciation and amortisation	12,439	18,623	845	562	2,825	35,294
Segment assets	1,878,310	539,959	551,076	24,445	563,619	3,557,409
Segment assets include:						
Investments accounted for using the equity method	34,236	—	—	—	—	34,236
Segment liabilities	162,190	22,013	304,639	16,039	776,124	1,281,005
Additions to non-current assets (other than financial instruments and deferred tax assets)	157,855	110,503	51,762	—	64,463	384,583

Year ended 31 December 2014:

	Wastewater Treatment	Water supply	Construction and equipment sales	Others	Unallocated	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Total segment revenue	383,608	216,043	551,862	31,034	—	1,182,547
Inter-segment revenue	—	—	(81,786)	—	—	(81,786)
Revenue from external customers	383,608	216,043	470,076	31,034	—	1,100,761
Gross profit	128,358	75,600	120,073	9,606	—	333,637
Share of profit/(loss) of investments accounted for using the equity method	10,942	—	—	—	—	10,942
Finance costs — net						(31,482)
Other income						49,059
Other gain — net						3,273
Selling expenses						(13,456)
Administrative expenses						(125,816)
Profit before income tax						226,157
Income tax expenses						(38,261)
Profit for the period						187,896
Depreciation and amortisation	22,447	24,546	3,871	3,171	3,911	57,946
Segment assets	2,726,338	769,595	743,972	95,480	684,554	5,019,939
Segment assets include:						
Investments accounted for using the equity method	45,178	—	—	—	—	45,178
Segment liabilities	536,586	107,179	463,640	36,107	1,155,103	2,298,615
Additions to non-current assets (other than financial instruments and deferred tax assets)	182,130	259,830	34,594	1,871	200,299	678,724

Inter-segment transfers or transactions are entered into at terms and conditions agreed upon by respective parties. Eliminations comprise inter-segment trade and non-trade balances. Pricing policy for inter-segment transactions is determined by reference to market price.

Breakdown of the revenue from all services is as follows:

	Year ended 31 December		
	2012	2013	2014
	RMB'000	RMB'000	RMB'000
Wastewater Treatment			
Operating services - BOO/TOO (*)	27,764	40,712	57,375
Operating services - BOT/TOT	19,290	42,284	90,214
Construction services	149,315	200,381	184,476
Finance income (**)	28,016	40,487	51,543
Water supply			
Operating services - BOO/TOO (*)	100,458	101,253	121,952
Operating services - BOT/TOT	1,666	1,715	20,418
Construction services	3,988	72,692	69,945
Finance income (**)	—	—	3,728
Construction and equipment sales	66,629	185,349	470,076
Others	1,395	3,861	31,034
	<u>398,521</u>	<u>688,734</u>	<u>1,100,761</u>

* Build-Own-Operate ("BOO" Model), a project model in which an enterprise undertakes the financing, design, construction of water supply or wastewater treatment facilities, which are owned by the enterprise, and has the right to operate facilities in the concession period, during which the enterprise can charge service fees based on the supplied tap water or treated wastewater to cover its costs of investment, operations and maintenance and obtain reasonable returns, according to the concession agreement entered into by the enterprise and the government.

Transfer-Own-Operate ("TOO" Model), a project model in which an enterprise purchases completed water supply or wastewater treatment facilities from the government and undertakes the operation of such facilities owned by the enterprise in the concession period, during which the enterprise can charge service fees based on the supplied tap water or treated wastewater to cover its costs of investment, operations and maintenance and obtain reasonable returns, according to the concession agreement entered into by the enterprise and the government.

** Finance income is recognised as revenue in profit or loss using the effective interest method. When the Group receives a payment during the concession period, it will apportion such payment between (i) a repayment of receivables under service concession arrangements (if any), (ii) finance income, which will be recognised as revenue in profit or loss and (iii) revenue from operating service.

Revenue of approximately RMB42,339,000, RMB258,549,000 and RMB202,162,000 are derived from a single external customer respectively for years ended 31 December 2012, 2013 and 2014. These revenues are attributable to construction services and equipment sales. Other than revenue from this major customer, none of the revenue derived from other single external customer amounted to more than 10% of the Group's revenue during the Relevant Periods.

6. Other income

	Year ended 31 December		
	2012	2013	2014
	RMB'000	RMB'000	RMB'000
Interest income			
- Bank deposits and others	3,178	2,690	8,370
- Other receivables from related parties (note 39(b)(iv))	11,973	11,696	1,634
Rental income - net (note (19))	691	1,967	3,480
Government grants (note (a))	6,489	67,886	34,880
Investment income from wealth management products	—	357	453
Miscellaneous income	923	111	242
	<u>23,254</u>	<u>84,707</u>	<u>49,059</u>

- (a) Amounts represented the subsidies granted by certain local governments to the Group in respect of the Group's provision of sewage and reclaimed water treatments, distribution and sale of piped water or construction of sewage and reclaimed water treatment plants.

7. Other gains - net

	Year ended 31 December		
	2012	2013	2014
	RMB'000	RMB'000	RMB'000
Disposal gain of Jinghong Haotai Real Estate Limited ("Jinghong Haotai") (note (a))	71,898	—	—
Disposal gain of a joint venture (note (b))	—	8,642	—
Negative goodwill arising from acquisition of a subsidiary (note 38(b))	—	304	—
Disposal gain/(loss) of properties, plants and equipments and land use rights	29	(4)	3,273
	<u>71,927</u>	<u>8,942</u>	<u>3,273</u>

- (a) In 2012, the Group further disposed of its 20% equity interest in Jinghong Haotai to Shenzhen Changfa through public auction, and recognised a disposal gain of RMB71,898,000.
- (b) In December 2013, the Group disposed of its 50% equity interest in Kunming Ruiyuan Tap Water Co., Ltd. ("Kunming Ruiyuan"), a joint venture to the Group, at the consideration of RMB59,216,000, and recognised a disposal gain of RMB8,642,000 in the income statement.

8 Expenses by nature

	Year ended 31 December		
	2012	2013	2014
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Employee benefit expenses (note 9)			
— Cost of sales	17,659	19,392	35,345
— Administrative expenses	15,785	35,474	58,884
— Selling expenses	5,375	6,404	7,371
Depreciation of property, plant and equipment (note 18)	29,095	32,787	46,054
Amortisation of land use right (note 17)	840	934	2,932
Amortisation of intangible assets (note 21)	144	1,318	8,631
Legal and professional fee	1,234	3,187	4,397
Auditor's remuneration	623	689	1,701
Travelling expenses	798	2,517	4,628
Entertainment expenses	2,359	4,473	4,654
Maintenance costs	2,632	4,168	5,209
Operating lease payments	185	845	4,181
Allowance for doubtful debts (note 26)	4,368	2,838	8,345
Office expenses	4,076	7,001	10,206
Costs of sewage and water distribution services	38,914	50,050	93,944
Costs of construction services	125,408	208,859	244,868
Costs of construction and equipment sales	49,931	119,176	342,824
Donation expenses	1,586	1,448	1,255
Taxes and levies	3,218	4,174	6,820
Others	3,639	8,924	14,147
Total cost of sales, selling expenses and administrative expenses	<u>307,869</u>	<u>514,658</u>	<u>906,396</u>

9 Employee benefit expense — including directors' emoluments

	Year ended 31 December		
	2012	2013	2014
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Wages and salaries	32,359	49,145	82,525
Social Security benefits	3,389	5,111	10,242
Housing benefits	1,156	1,718	2,768
Staff welfare	761	2,173	2,739
Other allowances and benefits	1,154	3,123	3,326
	<u>38,819</u>	<u>61,270</u>	<u>101,600</u>

(a) *Directors' and supervisors' emoluments*

The emoluments of individual directors and supervisors' of the Company paid/payable by the Group during the Relevant Periods are presented as below:

(i) *For the year ended 31 December 2012*

Name of directors	Fees	Salaries, allowances and bonus	House allowances and other benefits	Pension	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Executive Directors					
Mr. Yu Long (chief executive officer)	—	600	71	—	671
Mr. Liu Xujun	—	216	54	—	270
Mr. Huang Yunjian	—	216	55	—	271
Non-executive Directors *					
Mr. Xu Lei	—	—	—	—	—
Mr. Wen Jianping	—	—	—	—	—
Mr. He Yuanping	—	—	—	—	—
	—	1,032	180	—	1,212

(ii) *For the year ended 31 December 2013*

Name of directors	Fees	Salaries, allowances and bonus	House allowances and other benefits	Pension	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Executive Directors					
Mr. Yu Long (chief executive officer)	—	600	78	—	678
Mr. Liu Xujun	—	248	67	—	315
Mr. Huang Yunjian	—	264	70	—	334
Non-executive Directors *					
Mr. Xu Lei	—	—	—	—	—
Mr. Wen Jianping	—	—	—	—	—
Mr. He Yuanping	—	—	—	—	—
Mr. Feng Zhuangzhi	—	—	—	—	—
	—	1,112	215	—	1,327

(iii) For the year ended 31 December 2014

Name of directors	Fees	Salaries, allowances and bonus	House allowances and other benefits	Pension	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Executive Directors					
Mr. Yu Long (chief executive officer)	—	1,306	87	—	1,393
Mr. Liu Xujun	—	269	74	—	343
Mr. Huang Yunjian	—	294	75	—	369
Non-executive Directors *					
Mr. Xu Lei	—	—	—	—	—
Mr. Wen Jianping	—	—	—	—	—
Mr. He Yuanping	—	—	—	—	—
Mr. Feng Zhuangzhi	—	—	—	—	—
Mr. Jiao Jun **	—	—	—	—	—
Supervisors					
Ms. Yang Chuanyun	—	148	27	—	175
Ms. Wang Shuqin	—	—	—	—	—
Mr. Fang Bin	—	—	—	—	—
Independent Non-executive Directors					
Mr. Yao Yan Ping ***	—	—	—	—	—
Mr. Ma Shihao ***	—	—	—	—	—
Mr. Ren Gangfeng ***	—	—	—	—	—
Mr. Hu Song ***	—	—	—	—	—
	—	2,017	263	—	2,280

* There were no fees or other emoluments payable to non-executive directors during the Relevant Periods.

** Joining the Group on 28 May 2014.

*** Appointed on 18 August 2014.

(b) *Five highest paid individuals*

The five individuals whose emoluments were the highest in the Group for the Relevant Periods included three directors in 2012 and 2013 and two directors in 2014, whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining individuals during the Relevant Periods are as follows:

	Year ended 31 December		
	2012	2013	2014
	RMB'000	RMB'000	RMB'000
Basic salaries, housing allowances, other benefits in kind	262	262	717
Bonuses	130	130	366
	<u>392</u>	<u>392</u>	<u>1,083</u>

The emoluments of these remaining individuals of the Group fell within the following bands:

	Year ended 31 December		
	2012	2013	2014
Emolument bands			
Nil to RMB792,000 (equivalent to Nil to HKD1,000,000)	<u>2</u>	<u>2</u>	<u>3</u>

During the Relevant Periods, no emolument was paid by the Group to any of the above directors or the five highest paid individuals as an inducement to join, upon joining the Group, leave the Group or as compensation for loss of office.

10. Finance costs — net

	Year ended 31 December		
	2012	2013	2014
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Borrowing costs	29,864	33,174	55,354
Less: amounts capitalised on qualifying assets (note 18)	(9,125)	(10,337)	(21,090)
	20,739	22,837	34,264
Unwinding of provision (note 35)	30	65	769
Foreign exchange (gains)/losses on financing activities	592	386	(3,551)
	<u>21,361</u>	<u>23,288</u>	<u>31,482</u>

11. Income tax expense

	Year ended 31 December		
	2012	2013	2014
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Current income tax			
- PRC corporate income tax	47,408	44,770	43,908
Deferred income tax (note 34)	(13,433)	6,607	(5,647)
	<u>33,975</u>	<u>51,377</u>	<u>38,261</u>

Certain subsidiaries operated in the western region of Mainland China can enjoy a preferential corporate income tax rate of 15%, provided their revenues from water supply or wastewater treatment amount to more than 70% of their total revenues in the year.

Certain subsidiaries operated in the western region of Mainland China, are eligible for tax holiday of a three-year full exemption followed by a three-year half exemption commencing from their respective first year generating operating revenue.

Under the PRC Corporate Income Tax Law and respective regulations, except for preferential treatments available to certain subsidiaries as mentioned above, other subsidiaries within the Group were subject to corporate income tax at the statutory rate of 25%.

No provision for Hong Kong profits tax was made as the Company and the Group did not have assessable profit in Hong Kong during the Relevant Periods.

The tax on the Group's profit before tax differs from the theoretical amount that would arise using the weighted average tax rate applicable to profit/loss of the group entities as follows:

	Year ended 31 December		
	2012	2013	2014
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Profit before tax	<u>160,086</u>	<u>252,233</u>	<u>226,157</u>
Tax calculated at the statutory income tax rate of 25%	40,022	63,058	56,539
Tax effects of:			
- Effect of different income tax rate applicable to certain subsidiaries	(7,941)	(18,506)	(16,534)
- Re-measurement of deferred tax	—	7,912	—
- Tax effect of share of profit or loss of an associate and joint ventures	1,097	(1,949)	(2,735)
- Expenses not deductible for tax purposes	<u>797</u>	<u>862</u>	<u>991</u>
Income tax expenses	<u>33,975</u>	<u>51,377</u>	<u>38,261</u>

12. Earnings per share

(a) Basic

The basic earnings per share is calculated by dividing the profit attributable to the owners of the Company by the weighted average number of ordinary shares issued or deemed to be issued during the Relevant Periods. The Company was converted to a joint stock company on 22 July 2014, 787,880,000 ordinary shares with par value of RMB1 each were issued and allotted to the respective shareholders of the Company according to the paid-in capitals registered under these shareholders as at 22 July 2014. This capitalisation of share capital is applied retrospectively during the Relevant Periods for the purpose of computation of earnings per share.

	Year ended 31 December		
	2012	2013	2014
Profit attributable to the owners of the Company (RMB'000)	120,043	193,683	166,495
Weighted average number of ordinary shares in issue (thousands)	608,333	718,940	806,551
Basic earnings per share (RMB per share)	<u>0.197</u>	<u>0.269</u>	<u>0.206</u>

(b) *Diluted*

Diluted earnings per share is the same as basic earnings per share as there were no potential diluted ordinary shares outstanding as at 31 December 2012, 2013 and 2014.

13. Dividends

Pursuant to the resolution of the shareholders' meeting of the Company on 1 November 2014, the Company had declared and paid cash dividends of RMB110,500,000.

14. Profit attributable to owners of the Company

The profit attributable to owners of the Company dealt with in the financial statements of the Company is as follow:

	Year ended 31 December		
	2012	2013	2014
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Profit/(loss)	<u>66,387</u>	<u>(23,897)</u>	<u>52,409</u>

15. Investment in subsidiaries(a) *Investments in subsidiaries*

	As at 31 December		
	2012	2013	2014
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Investments, at cost:			
Unlisted shares	<u>739,629</u>	<u>876,829</u>	<u>1,145,361</u>

Investments in subsidiaries are recorded at cost, which is the fair value of the consideration paid. Details of the principal subsidiaries are set out in note 1.3.

(b) *Material non-controlling interests*

In 2013, increase in non-controlling interests of RMB40,000,000 represented capital injection and increase in non-controlling interests of RMB8,976,000 was derived from acquisition.

In 2014, increase in non-controlling interests of RMB73,616,000 were derived from acquisitions, and increase in non-controlling interests of RMB34,000,000 represented capital injection.

The total non-controlling interests as at 31 December 2012, 2013 and 2014 amounted to RMB152,004,000, RMB208,153,000 and RMB337,078,000 respectively, of which RMB141,562,000, RMB146,391,000 and RMB155,321,000 represented non-controlling interests in Jinghong Water Supply and Drainage Co., Ltd. The non-controlling interests in other subsidiaries are not material.

Summarised financial information on subsidiaries with material non-controlling interests

Set out below are the summarised financial information for Jinghong Water Supply and Drainage Co., Ltd. which is the subsidiary that has non-controlling interests that are material to the Group.

Summarised balance sheet

	As at 31 December		
	2012	2013	2014
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Current			
Assets	113,716	100,359	63,123
Liabilities	(93,847)	(92,355)	(38,017)
Total current net assets	19,869	8,004	25,106
Non-current			
Assets	315,606	329,718	321,622
Liabilities	(46,573)	(38,965)	(29,746)
Total non-current net assets	269,033	290,753	291,876
Net assets	288,902	298,757	316,982
Attributable to non-controlling interests	141,562	146,391	155,321

Summarised statements of comprehensive income

	Year ended 31 December		
	2012	2013	2014
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Revenue	60,646	63,454	70,604
Profit before income tax	14,377	11,786	21,717
Income tax expense	(2,795)	(1,931)	(3,492)
Profit for the year	11,582	9,855	18,225
Other comprehensive income	—	—	—
Total comprehensive income	11,582	9,855	18,225
Total comprehensive income attributable to non-controlling interests	5,676	4,829	8,930
Dividends paid to non-controlling interests	—	—	—

Summarised statements of cash flows

	Year ended 31 December		
	2012	2013	2014
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Cash flows from operating activities			
Cash generated from operations	116,462	36,049	47,640
Interest paid	(3,735)	(2,912)	(4,464)
Income tax paid	(2,510)	(2,648)	(3,826)
Net cash generated from operating activities	110,217	30,489	39,350
Net cash used in investing activities	(16,115)	(72,261)	(4,555)
Net cash used in financing activities	(65,035)	(6,478)	(38,500)
Net increase/(decrease) in cash and cash equivalents	29,067	(48,250)	(3,705)
Cash and cash equivalents at beginning of year	80,060	109,127	60,877
Cash and cash equivalents at end of year	109,127	60,877	57,172

16. Investments in an associate and joint ventures

The amounts recognised in the consolidated balance sheet are as follows:

	As at 31 December		
	2012	2013	2014
	RMB'000	RMB'000	RMB'000
Group			
An associate (note (a))	—	—	—
Joint ventures	77,012	34,236	45,178
	<u>77,012</u>	<u>34,236</u>	<u>45,178</u>
Company			
Joint ventures	85,594	25,594	25,594
	<u>85,594</u>	<u>25,594</u>	<u>25,594</u>

The amounts recognised in the consolidated income statement are as follows:

	Year ended 31 December		
	2012	2013	2014
	RMB'000	RMB'000	RMB'000
Group			
An associate	(449)	—	—
Joint ventures	(3,937)	7,796	10,942
	<u>(4,386)</u>	<u>7,796</u>	<u>10,942</u>

(a) *Investment in an associate*

Jinghong Haotai was an associate of the Group as at 1 January 2012. The investment in this associate is accounted for using the equity method. During the year ended 31 December 2012, the interest in this associate has been disposed of at the consideration of RMB93,124,000.

	Year ended 31 December		
	2012	2013	2014
	RMB'000	RMB'000	RMB'000
As at 1 January	21,675	—	—
Addition	—	—	—
Share of loss	(449)	—	—
Disposal of an associate	(21,226)	—	—
As at 31 December	<u>—</u>	<u>—</u>	<u>—</u>

(b) *Investment in joint ventures*

The Group also has interests in joint ventures that are accounted for using the equity method during the Relevant Periods.

Name of entity	Place of business/ country of incorporation	Percentage of ownership interest			Note
		As at 31 December			
		2012	2013	2014	
Kunming Ruiyuan	PRC	50	—	—	(i)
OriginWater Technology (note 38(a))	PRC	—	—	—	(ii)
Wenshan Water Industry Investment Limited (“Wenshan Water”)	PRC	51	51	51	

All of the joint ventures are principally engaged in construction of sewage and reclaimed water treatment plants, tap water supply and provision of sewage and reclaimed water treatment.

(i) Kunming Ruiyuan has been disposed of by the Group in 2013.

(ii) OriginWater Technology has been acquired by the Group in 2012.

	Year ended 31 December		
	2012	2013	2014
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
As at 1 January	114,817	77,012	34,236
Share of (loss) / profit	(3,937)	7,796	10,942
OriginWater Technology being acquired by the Group (note 38 (a))	(33,868)	—	—
Disposal of a joint venture	—	(50,572)	—
As at 31 December	<u>77,012</u>	<u>34,236</u>	<u>45,178</u>

No individual joint venture is considered to be material to the Group.

17. Land use rights — Group

The Group's interests in land use rights represent prepaid operating lease for lands located in the PRC with a lease term of 40-50 years, and their net book value are analysed as follows:

	Year ended 31 December		
	2012	2013	2014
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Opening net book amount	39,801	38,961	42,957
Additions	—	2,024	29,882
Acquisition of subsidiaries (note 38)	—	2,906	28,621
Amortisation:			
— Recognised as expenses (note 8)	(840)	(934)	(2,932)
Disposals	—	—	(658)
Closing net book amount	<u>38,961</u>	<u>42,957</u>	<u>97,870</u>
Outside Hong Kong			
Leases of between 10 to 50 years	<u>38,961</u>	<u>42,957</u>	<u>97,870</u>

No land use rights of the Group were pledged as collateral as at 31 December 2012 and 2013.

As at 31 December 2014, land use rights of RMB21,060,000 were pledged as collateral for the Group's banking facility of RMB100,000,000 which were drawn down in November 2014.

18. Property, plant and equipment

Group

	Plants and buildings	Machinery	Motor vehicles	Electronic equipment and others	Construction in progress	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2012						
Cost	144,306	480,224	6,504	2,573	130,487	764,094
Accumulated depreciation	(36,294)	(89,473)	(2,445)	(1,373)	—	(129,585)
Net book amount	108,012	390,751	4,059	1,200	130,487	634,509
Year ended 31 December 2012						
Opening net book amount	108,012	390,751	4,059	1,200	130,487	634,509
Acquisitions of subsidiaries (note 38)	—	—	2,174	136	19,181	21,491
Additions	18	2,661	828	3,288	93,910	100,705
Transfer from construction in progress	—	1,303	—	—	(1,303)	—
Disposals	—	—	(82)	(9)	—	(91)
Depreciation (note 8)	(6,936)	(20,529)	(862)	(768)	—	(29,095)
Closing net book amount	101,094	374,186	6,117	3,847	242,275	727,519
At 31 December 2012						
Cost	144,324	484,188	9,424	5,988	242,275	886,199
Accumulated depreciation	(43,230)	(110,002)	(3,307)	(2,141)	—	(158,680)
Net book amount	101,094	374,186	6,117	3,847	242,275	727,519
Year ended 31 December 2013						
Opening net book amount	101,094	374,186	6,117	3,847	242,275	727,519
Acquisitions of subsidiaries (note 38)	6,767	7,336	—	460	41	14,604
Additions	28	2,821	4,162	2,125	329,414	338,550
Transfer from construction in progress	38,759	98,213	—	—	(136,972)	—
Transfer to investment properties (note 19)	(3,463)	—	—	—	—	(3,463)
Transfer to non-current assets held-for-sale (note 23)	—	—	—	—	(24,134)	(24,134)
Disposals	—	(336)	(161)	(27)	—	(524)
Depreciation (note 8)	(7,772)	(22,209)	(1,432)	(1,374)	—	(32,787)
Closing net book amount	135,413	460,011	8,686	5,031	410,624	1,019,765
At 31 December 2013						
Cost	186,415	592,222	13,425	8,546	410,624	1,211,232
Accumulated depreciation	(51,002)	(132,211)	(4,739)	(3,515)	—	(191,467)
Net book amount	135,413	460,011	8,686	5,031	410,624	1,019,765

	Plants and buildings	Machinery	Motor vehicles	Electronic equipment and others	Construction in progress	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Year ended 31 December 2014						
Opening net book amount	135,413	460,011	8,686	5,031	410,624	1,019,765
Acquisitions (note 38)	63,896	39,974	1,492	36,546	30,637	172,545
Additions	610	24,093	5,408	10,688	193,960	234,759
Transfer from construction in progress	53,860	14,015	—	—	(67,875)	—
Disposals	(1,560)	(82)	(403)	(18)	—	(2,063)
Depreciation (note 8)	(10,840)	(27,897)	(3,899)	(3,418)	—	(46,054)
Closing net book amount	241,379	510,114	11,284	48,829	567,346	1,378,952
At 31 December 2014						
Cost	305,190	670,222	19,922	55,762	567,346	1,618,442
Accumulated depreciation	(63,811)	(160,108)	(8,638)	(6,933)	—	(239,490)
Net book amount	241,379	510,114	11,284	48,829	567,346	1,378,952

As at 31 December 2012, 2013 and 2014, the Group has capitalised borrowing costs amounting to RMB9,125,000, RMB10,337,000 and RMB21,090,000 on qualifying assets respectively. Borrowing costs were capitalised at the weighted average rate of 7.06%, 6.55% and 7.06% respectively (note 10).

As at 31 December 2012 and 2013, buildings and machineries of RMB262,245,000 and RMB247,626,000 were pledged as collateral for the Group's bank borrowings. As at 31 December 2014, no building and machinery was pledged as collateral for the Group's bank borrowings.

Depreciation was charged to the following items:

	Year ended 31 December		
	2012	2013	2014
	RMB'000	RMB'000	RMB'000
Cost of sales	26,810	29,464	40,641
Selling expenses	521	720	636
Administrative expenses	1,764	2,603	4,777
Total	29,095	32,787	46,054

Company

	Machinery	Motor vehicles	Electronic equipment and others	Construction in progress	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
At 1 January 2012					
Cost	42	—	4	—	46
Accumulated depreciation	(2)	—	—	—	(2)
Net book amount	<u>40</u>	<u>—</u>	<u>4</u>	<u>—</u>	<u>44</u>
Year ended 31 December 2012					
Opening net book amount	40	—	4	—	44
Additions	477	712	2,617	—	3,806
Depreciation	(35)	—	(344)	—	(379)
Closing net book amount	<u>482</u>	<u>712</u>	<u>2,277</u>	<u>—</u>	<u>3,471</u>
At 31 December 2012					
Cost	519	712	2,621	—	3,852
Accumulated depreciation	(37)	—	(344)	—	(381)
Net book amount	<u>482</u>	<u>712</u>	<u>2,277</u>	<u>—</u>	<u>3,471</u>
Year ended 31 December 2013					
Opening net book amount	482	712	2,277	—	3,471
Additions	4	853	188	20,622	21,667
Depreciation	(90)	(156)	(557)	—	(803)
Closing net book amount	<u>396</u>	<u>1,409</u>	<u>1,908</u>	<u>20,622</u>	<u>24,335</u>
At 31 December 2013					
Cost	523	1,565	2,809	20,622	25,519
Accumulated depreciation	(127)	(156)	(901)	—	(1,184)
Net book amount	<u>396</u>	<u>1,409</u>	<u>1,908</u>	<u>20,622</u>	<u>24,335</u>
Year ended 31 December 2014					
Opening net book amount	396	1,409	1,908	20,622	24,335
Additions	12	779	1,320	7,726	9,837
Depreciation	(125)	(277)	(666)	—	(1,068)
Closing net book amount	<u>283</u>	<u>1,911</u>	<u>2,562</u>	<u>28,348</u>	<u>33,104</u>
At 31 December 2014					
Cost	535	2,344	4,129	28,348	35,356
Accumulated depreciation	(252)	(433)	(1,567)	—	(2,252)
Net book amount	<u>283</u>	<u>1,911</u>	<u>2,562</u>	<u>28,348</u>	<u>33,104</u>

No property, plant and equipment was pledged as collateral as at 31 December 2012, 2013 and 2014.

19. Investment properties

	Year ended 31 December		
	2012	2013	2014
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Opening net book amount	2,284	2,163	5,371
Transfer from property, plant and equipment (note 18)	—	3,463	—
Depreciation	(121)	(255)	(329)
Closing net book amount	<u>2,163</u>	<u>5,371</u>	<u>5,042</u>

Amounts recognised in profit and loss for investment properties:

	Year ended 31 December		
	2012	2013	2014
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Rental income	827	2,329	4,046
Direct operating expenses from property that generated rental income	(136)	(362)	(566)
	<u>691</u>	<u>1,967</u>	<u>3,480</u>

The Group had no contractual obligations for future repairs and maintenance as at 31 December 2012, 2013 and 2014.

An independent valuation of the Group's investment properties was performed by the valuer, Zhongwei Zhengxin (Beijing) Assets Appraisal Co., Ltd., to determine the fair value of the investment properties as at 31 December 2012, 2013 and 2014. The fair value of these investment properties as at 31 December 2012, 2013 and 2014 as assessed by the valuer by open market value method or depreciated replacement cost method was approximately RMB8,090,000, RMB14,426,000 and RMB14,426,000 respectively.

20. Receivables under service concession arrangements

The Group has entered into a number of services concession arrangements with certain governmental authorities in the PRC under BOT or a TOT models in respect of its sewage and reclaimed water treatment and water distribution services. These service concession arrangements generally involve the Group as an operator (i) constructing sewage and reclaimed water treatment plants and water distribution facilities (collectively, the "Facilities") for those arrangements under BOT models; (ii) paying a specific amount for those arrangements under TOT models; and (iii) operating and maintaining the Facilities at a specified level of serviceability on behalf of the relevant governmental authorities for the periods from 25 to 30 years (the "Service Concession Periods"), and the Group will be paid for its services over the Service Concession Periods at prices stipulated through a pricing mechanism. The Group is generally entitled to use all the property, plant and equipment of the

Facilities, however, the relevant governmental authorities as grantors will control and regulate the scope of service that the Group must provide with the Facilities, and retain the beneficial entitlement to any residual interest in the Facilities at the end of the Service Concession Periods. Each of these service concession arrangements is governed by a contract and, where applicable, supplementary agreements entered into between the Group and the relevant governmental authority in the PRC that set out, inter alia, performance standards, mechanisms for adjusting prices for the services rendered by the Group, and specific obligations levied on the Group to restore the Facilities to a specified level of serviceability at the end of the Service Concession Periods and arrangements for arbitrating disputes.

As further explained in the accounting policy for "Service concession arrangements" set out in note 2.12 to the Financial Information, the consideration paid by the Group for a service concession arrangement is accounted for as an intangible asset (operating concession) (note 21) or a financial asset (receivable under a service concession arrangement) or a combination of both, as appropriate.

Among the above services concession arrangements with certain governmental authorities, there are four services concession arrangements that are recognised as intangible assets, as those projects had rights to charge users for the public service, and 39 concession arrangements which are recognised as financial assets as those projects had unconditional contractual right to receive cash from local government.

The effective interest rate fell within the range from 5.13% to 7.04%.

The following is the summarised information of the financial asset component (receivable under a service concession arrangement) with respect to the Group's and Company's service concession arrangements:

Group	As at 31 December		
	2012	2013	2014
	RMB'000	RMB'000	RMB'000
Receivables under service concession arrangements	651,097	937,102	1,454,262
Portion classified as current assets	(4,056)	(4,039)	(9,662)
Non-current portion	<u>647,041</u>	<u>933,063</u>	<u>1,444,600</u>

APPENDIX I**ACCOUNTANT'S REPORT**

Company	As at 31 December		
	2012	2013	2014
	RMB'000	RMB'000	RMB'000
Receivables under service concession arrangements	—	13,052	40,414
Portion classified as current assets	—	—	—
Non-current portion	<u>—</u>	<u>13,052</u>	<u>40,414</u>

In respect of the Group's and Company's receivables under service concession arrangements, credit risks varied amongst the Group's projects operated in different locations of the PRC. The collection of receivables under services concession arrangements is closely monitored in order to minimise any credit risk associated with the receivables.

Group	As at 31 December		
	2012	2013	2014
	RMB'000	RMB'000	RMB'000
Yunnan Province	651,097	818,817	884,053
Jiangsu Province	—	—	236,780
Xinjiang Province	—	118,285	248,495
Others	<u>—</u>	<u>—</u>	<u>84,934</u>
	<u>651,097</u>	<u>937,102</u>	<u>1,454,262</u>

The expected collection schedule of receivables under service concession arrangements is as follows:

Group	As at 31 December		
	2012	2013	2014
	RMB'000	RMB'000	RMB'000
Within one year	4,056	4,039	9,662
One to two years	4,039	6,585	9,494
Two to five years	18,471	42,366	55,969
Over five years	<u>624,531</u>	<u>884,112</u>	<u>1,379,137</u>
	<u>651,097</u>	<u>937,102</u>	<u>1,454,262</u>

The receivables under service arrangements were billable receivables. They were mainly due from governmental authorities in Mainland China, as grantors in respect of the Group's service concession arrangements. Based on past experience, the Directors of the Company are of the opinion that no provision for impairment is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. As at 31 December 2014, the receivables under service concession arrangements with net carrying amount of RMB238,800,000 were pledged to certain banks as security of the Group's bank loans.

21. Intangible assets

Group	Goodwill	Development expenditure	Operating concession	Operating contract rights	Software	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
At 1 January 2012						
Cost	—	—	29,229	—	4	29,233
Accumulated amortisation	—	—	(133)	—	—	(133)
Net book amount	—	—	29,096	—	4	29,100
Year ended 31 December 2012						
Opening net book amount	—	—	29,096	—	4	29,100
Additions	—	—	2,438	—	588	3,026
Amortisation (note 8)	—	—	(133)	—	(11)	(144)
Closing net book amount	—	—	31,401	—	581	31,982
At 31 December 2012						
Cost	—	—	31,667	—	592	32,259
Accumulated amortisation	—	—	(266)	—	(11)	(277)
Net book amount	—	—	31,401	—	581	31,982
Year ended 31 December 2013						
Opening net book amount	—	—	31,401	—	581	31,982
Acquisition of subsidiaries (note 38)	1,035	—	—	7,742	—	8,777
Additions	—	155	9,693	—	30	9,878
Amortisation (note 8)	—	—	(393)	(806)	(119)	(1,318)
Closing net book amount	1,035	155	40,701	6,936	492	49,319
At 31 December 2013						
Cost	1,035	155	41,360	7,742	622	50,914
Accumulated amortisation	—	—	(659)	(806)	(130)	(1,595)
Net book amount	1,035	155	40,701	6,936	492	49,319

APPENDIX I**ACCOUNTANT'S REPORT**

Group	Goodwill	Development expenditure	Operating concession	Operating contract rights	Software	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Year ended 31 December 2014						
Opening net book amount	1,035	155	40,701	6,936	492	49,319
Acquisition of subsidiaries (note 38)	—	—	10,999	25,894	5	36,898
Additions	880	5,588	98,395	—	192	105,055
Amortisation (note 8)	—	—	(3,689)	(4,776)	(166)	(8,631)
Closing net book amount	<u>1,915</u>	<u>5,743</u>	<u>146,406</u>	<u>28,054</u>	<u>523</u>	<u>182,641</u>
At 31 December 2014						
Cost	1,915	5,743	150,754	33,636	819	192,867
Accumulated amortisation	—	—	(4,348)	(5,582)	(296)	(10,226)
Net book amount	<u>1,915</u>	<u>5,743</u>	<u>146,406</u>	<u>28,054</u>	<u>523</u>	<u>182,641</u>

Amortisation was charged to the following items

	Year ended 31 December		
	2012	2013	2014
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Cost of sales	133	1,199	8,465
Administrative expenses	11	119	166
Total	<u>144</u>	<u>1,318</u>	<u>8,631</u>

22. Available-for-sale financial assets

Movement of available-for-sale financial assets are as follows:

	Year ended 31 December		
	2012	2013	2014
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
At 1 January	—	29,200	—
Investment in wealth management products	29,200	—	29,000
Disposal of wealth management products	—	(29,200)	(29,000)
At 31 December	<u>29,200</u>	<u>—</u>	<u>—</u>

The available-for-sale financial assets are denominated in RMB and are measured at their fair value. The fair value is not based on observable market data and is therefore within level 3 of the fair value hierarchy.

23. Non-current assets held-for-sale

	As at 31 December		
	2012	2013	2014
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Property, plant and equipment (note (a))	—	24,134	—
Equity investment in unlisted companies (note (b))	—	—	7,500
Total	<u>—</u>	<u>24,134</u>	<u>7,500</u>

(a) Pursuant to an agreement between the Group and a local government in 2013, the Group has transferred certain properties and plants under construction amounting to RMB24,134,000 to the government during the year ended 31 December 2014 (note 18).

(b) In 2014, the Group has entered into agreements to dispose of these investments.

24. Inventories

	As at 31 December		
	2012	2013	2014
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Raw materials	6,190	3,725	7,101
Goods in transit	2,216	451	813
Work in progress	2,316	4,552	4,545
	<u>10,722</u>	<u>8,728</u>	<u>12,459</u>

No provisions for inventories have been made during the Relevant Periods.

25. Amounts from/ (to) customers for contract works

Contracts in progress at the end of the reporting periods:

	As at 31 December		
	2012	2013	2014
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Costs incurred to date plus recognised profits less recognised losses	6,720	71,229	242,907
Less: Progress billings	<u>(6,720)</u>	<u>(64,152)</u>	<u>(46,255)</u>
	<u>—</u>	<u>7,077</u>	<u>196,652</u>
Analysed for reporting purposes as:			
Amounts due from customers for contract works — non current	—	—	193,924
Amounts due from customers for contract works — current	—	12,539	6,455
Amounts due to customers for contract works	<u>—</u>	<u>(5,462)</u>	<u>(3,727)</u>
	<u>—</u>	<u>7,077</u>	<u>196,652</u>

26. Trade and other receivables

Group	As at 31 December		
	2012	2013	2014
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Trade receivables			
— Related parties (note 39(d))	46,032	87,227	317,862
— Local governments	32,339	65,684	163,386
— Others	108,574	69,623	130,087
Less: provision for impairment	(4,440)	(7,056)	(10,973)
Trade receivables — net	<u>182,505</u>	<u>215,478</u>	<u>600,362</u>
Other receivables due from:			
— Related parties (note 39(d))	482,511	173,850	63,158
— Third parties	145,586	146,047	99,306
Less: provision for impairment	(5,139)	(5,432)	(11,602)
Other receivables — net	<u>622,958</u>	<u>314,465</u>	<u>150,862</u>
Prepayments	<u>41,165</u>	<u>116,687</u>	<u>232,448</u>
Less: non-current portion			
— Prepayments	(29,626)	(52,580)	(100,000)
— Other receivables — third parties	—	(2,255)	(38,186)
— Other receivables — related parties (note 39(d))	(133,870)	(75,690)	—
Non-current portion	<u>(163,496)</u>	<u>(130,525)</u>	<u>(138,186)</u>
Current portion	<u><u>683,132</u></u>	<u><u>516,105</u></u>	<u><u>845,486</u></u>

Company	As at 31 December		
	2012	2013	2014
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Trade receivables			
— Third parties	<u>147</u>	<u>295</u>	<u>1,233</u>
Other receivables due from:			
— Subsidiaries (note 39(d))	405,144	645,849	1,055,205
— Third parties	117,204	111,970	15,566
— Related parties (note 39(d))	228,188	6,303	63,158
Less: provision for impairment	(22)	(8)	(4,477)
Other receivables — net	<u>750,514</u>	<u>764,114</u>	<u>1,129,452</u>
Prepayments	<u>25,000</u>	<u>54,221</u>	<u>37,823</u>
Less: non-current portion			
— Prepayments	(25,000)	(51,000)	—
Current portion	<u><u>750,661</u></u>	<u><u>767,630</u></u>	<u><u>1,168,508</u></u>

The carrying amount of trade and other receivables approximate their fair values and are mainly denominated in RMB.

The Group's prepayments are mainly from the purchase of goods, construction works and other services.

In general, the Group and the Company grant credit periods of within 90 days to its customers. Aging analysis of gross trade receivables at the respective balance sheet dates, based on the invoice dates or contractual terms, is as follows:

Group	As at 31 December		
	2012	2013	2014
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Within one year	154,008	153,266	423,832
One to two years	32,433	51,638	121,497
Two to three years	332	17,309	56,086
Over three years	172	321	9,920
	<u>186,945</u>	<u>222,534</u>	<u>611,335</u>

As of 31 December 2012, 2013 and 2014, the Group's trade receivables of RMB7,218,000, RMB37,028,000 and RMB225,624,000 were fully performing, which mainly represented retention fees of construction projects due from customers.

As of 31 December 2012, 2013 and 2014, the Group's trade receivables of RMB175,287,000, RMB178,450,000 and RMB374,738,000 were past due but not impaired.

These receivables relate to a number of independent customers that there are no recent history of default. Based on past experience and project status, the directors of the Company are of the opinion that no provision for impairment is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The aging of these receivables is as follows:

Group	As at 31 December		
	2012	2013	2014
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Within one year	145,295	120,156	199,233
One to two years	29,733	45,059	118,433
Two to three years	259	13,123	51,536
Over three years	—	112	5,536
	<u>175,287</u>	<u>178,450</u>	<u>374,738</u>

As of 31 December 2012, 2013 and 2014, the Group's trade receivables of RMB4,440,000, RMB7,056,000 and RMB10,973,000 were impaired. The aging of these trade receivables is as follows:

Group	As at 31 December		
	2012	2013	2014
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Within one year	1,495	976	1,009
One to two years	2,700	1,685	1,030
Two to three years	73	4,186	4,550
Over three years	172	209	4,384
	<u>4,440</u>	<u>7,056</u>	<u>10,973</u>

Movement of the Group's provision for impairment of trade receivables are as follows:

Group	Year ended 31 December		
	2012	2013	2014
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Opening balance	280	4,440	7,056
Acquisition of subsidiaries	—	123	—
Impairment provision (note 8)	4,160	2,493	3,928
Unused amounts reversed	—	—	(11)
Closing balance	<u>4,440</u>	<u>7,056</u>	<u>10,973</u>

Movement of the Group's provision for impairment of other receivables are as follows:

Group	Year ended 31 December		
	2012	2013	2014
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Opening balance	5,290	5,139	5,432
Acquisition of subsidiaries	—	314	1,753
Impairment provision (note 8)	208	345	4,417
Unused amounts reversed	(359)	(366)	—
Closing balance	<u>5,139</u>	<u>5,432</u>	<u>11,602</u>

No impairment of trade receivables is made by the Company during the Relevant Periods.

The recognition and release of provision for impaired receivables have been included in 'administrative expenses' in the consolidated income statement. Amounts charged to the allowance account are generally written off, when there is no expectation of recovering additional cash.

The maximum exposure to credit risk at the reporting date is the carrying value of each class of receivable mentioned above. The Group does not hold any collateral as security.

27. Cash and cash equivalents

	As at 31 December		
	2012	2013	2014
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Group			
Cash at bank and on hand	<u>330,393</u>	<u>758,146</u>	<u>612,649</u>
Company			
Cash at bank and on hand	<u>99,219</u>	<u>277,677</u>	<u>132,089</u>

Cash at bank and on hand are denominated in RMB.

28. Paid-in capital/ share capital

Group and Company

	Number of ordinary shares (note d)	Paid-in capital/ share capital
	<i>RMB'000</i>	<i>RMB'000</i>
As at 1 January 2012	N.A.	600,000
Capital injection (note (a))	<u>N.A.</u>	<u>50,000</u>
As at 31 December 2012	N.A.	650,000
Capital injection (note (c))	<u>N.A.</u>	<u>137,880</u>
As at 31 December 2013	N.A.	787,880
Ordinary shares of RMB1.00 each issued and allocated on 22 July 2014 (note (d))	<u>787,880</u>	<u>—</u>
As at 22 July 2014	787,880	787,880
Capital injection (note(e))	<u>74,684</u>	<u>74,684</u>
As at 31 December 2014	<u>862,564</u>	<u>862,564</u>

- (a) On 11 October 2012, pursuant to capital injection agreement, i) Yunnan Province Water injected cash of RMB35,250,000 into the Company, among which RMB25,500,000 increased the paid-in capital and RMB9,750,000 increased capital reserves; ii) Beijing OriginWater injected cash of RMB33,868,000 into the Company, among which RMB24,500,000 increased paid-in capital and RMB9,368,000 increased capital reserves. After this capital injection, the paid-in capital of the Company increased by RMB50,000,000 and the reserves of the Company increased by RMB19,118,000 (note 29).
- (b) On 12 May 2013, the Beijing OriginWater transferred its 4.90% equity interest in the Company to certain key management of the Company at a consideration of RMB72,436,000.
- (c) On 27 September 2013, pursuant to a capital increase agreement and revised articles of association, Finergy Development (Tianjin) Equity Investment Partnership (Limited Partnership) ("Finergy Development") injected cash of RMB400,000,000 into the Company, of which RMB137,880,000 was recognised as paid-in capital and RMB262,120,000 was recognised as capital reserves. After this capital injection, Yunnan Province Water, Beijing OriginWater, Finergy Development and 29 key management held 42.07%, 36.38%, 17.5% and 4.05% equity interest of the Company, respectively.
- (d) On 22 July 2014, the Company was converted from a limited liability company into a joint stock limited liability company with a registered capital of RMB787,880,000. The Company issued and allotted 787,880,000 ordinary shares with par value of RMB1 each to the respective then shareholders of the Company in accordance with the proportion of their paid-in capital to the Company as at 22 July 2014.
- (e) On 15 September 2014, pursuant to a capital injection agreement and revised articles of association, Yunnan Province Water, Hangzhou Qingyu and Sichuan Rongchen injected cash with an aggregated amount of RMB260,000,000 into the Company, of which RMB74,684,000 was recognised as share capital and RMB185,316,000 was recognised as capital reserves. After this capital injection, Yunnan Province Water, Beijing OriginWater, Finergy Development, 30 key management, Hangzhou Qingyu and Sichuan Rongchen held 45.43%, 33.23%, 15.98%, 3.69%, 0.67% and 1.00% equity interest of the Company, respectively.

29. Other reserves

Group

	Capital reserve	Statutory reserve	Merger reserve	Translation reserve	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>		<i>RMB'000</i>
Balance at 1 January 2012	569,881	6,906	5,100	—	581,887
Capital injection (note 28(a))	19,118	—	—	—	19,118
Business combination under common control (note (b))	—	—	(5,100)	—	(5,100)
Profit appropriation (note (a))	—	15,750	—	—	15,750
Balance at 31 December 2012	588,999	22,656	—	—	611,655
Capital injection by Finergy Development (note 28(c))	262,120	—	—	—	262,120
Contribution by Yunnan Province Water (note (c))	42,173	—	—	—	42,173
Profit appropriation (note (a))	—	24,436	—	—	24,436
Balance at 31 December 2013	893,292	47,092	—	—	940,384
Contribution by Yunnan Province Water, Hangzhou Qingyu, and Sichuan Rongchen (note 28(e))	185,316	—	—	—	185,316
Currency translation differences	—	—	—	(92)	(92)
Profit appropriation (note (a))	—	29,532	—	—	29,532
Balance at 31 December 2014	<u>1,078,608</u>	<u>76,624</u>	<u>—</u>	<u>(92)</u>	<u>1,155,140</u>

Company

	Capital reserve	Statutory reserve	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
As at 1 January 2012	630,231	4,779	635,010
Capital injection (note 28(a))	19,118	—	19,118
Profit appropriation (note (a))	—	4,991	4,991
As at 31 December 2012	649,349	9,770	659,119
Capital injection (note 28(c))	262,120	—	262,120
Capital contribution by Yunnan Province Water (note (c))	42,173	—	42,173
As at 31 December 2013	953,642	9,770	963,412
Contribution by Yunnan Province Water, Hangzhou Qingyu, and Sichuan Rongchen (note 28(e))	185,316	—	185,316
Profit appropriation (note (a))	—	5,241	5,241
As at 31 December 2014	<u>1,138,958</u>	<u>15,011</u>	<u>1,153,969</u>

Note:

(a) Statutory reserve and enterprise expansion fund

In accordance with relevant rules and regulations in the PRC, except for sino-foreign equity joint venture enterprises, all PRC companies are required to transfer 10% of their profit after taxation calculated under PRC accounting rules and regulations to the statutory reserve fund, until the accumulated total of the fund reaches 50% of their registered capital. The statutory reserve fund can only be used, upon approval by the relevant authority, to offset losses carried forward from previous years or to increase capital of the respective companies.

(b) Business combination under common control

Mengla Water Supply and Drainage Co., Ltd. ("Mengla Water") was set up by Jinghong Municipal Investment and Development Co., Ltd. ("Jinghong Investment", a subsidiary of YMCI) in September 2011 with paid-in capital of RMB10,000,000. In 2012, the Company entered into an agreement with Jinghong Investment, pursuant to which the Company made capital injection of RMB10,710,000 to Mengla Water and obtained 51% equity interest in Mengla Water, Jinghong Investment made additional capital injection of RMB290,000 to Mengla Water and retained 49% equity interest in Mengla Water, Mengla Water became the subsidiary of the Company. As Mengla Water was under the control of YMCI before and after the acquisition, it is a business combination under common control and therefore Mengla Water was consolidated by the Group as a 51% owned subsidiary since the date of its establishment.

(c) Capital contribution by Yunnan Province Water

In 2013, Yunnan Province Water contributed cash of RMB42,173,000 to the Company.

30. Retained earnings

	Company
	<i>RMB'000</i>
At 1 January 2012	32,690
Profit for the year (note 14)	66,387
Transfer to reserves (note 29)	<u>(4,991)</u>
At 31 December 2012	94,086
Loss for the year (note 14)	<u>(23,897)</u>
At 31 December 2013	70,189
Profit for the year (note 14)	52,409
Transfer to reserves (note 29)	(5,241)
Dividends	<u>(110,500)</u>
At 31 December 2014	<u><u>6,857</u></u>

31. Trade and other payables

Group

	As at 31 December		
	2012	2013	2014
	RMB'000	RMB'000	RMB'000
Trade payables:			
— Related parties (note 39(d))	5,909	32,376	145,401
— Third parties	166,465	240,317	376,656
Other payables:			
— Related parties (note 39(d))	9	11,315	37,894
— Third parties	66,503	82,078	245,165
Advances from customers	10,086	24,049	15,239
Staff welfare benefit payable	5,253	8,898	19,676
Other taxes payable	19,941	24,143	36,667
	<u>274,166</u>	<u>423,176</u>	<u>876,698</u>

Company

	As at 31 December		
	2012	2013	2014
	RMB'000	RMB'000	RMB'000
Trade payables	—	3,354	5,029
Other payables due to:			
— Subsidiaries	10,944	5,093	6,676
— Related parties	—	—	618
— Third parties	1,625	6,336	17,085
Staff welfare benefit payable	2,806	4,201	8,115
Other taxes payable	1,116	1,266	2,629
	<u>16,491</u>	<u>20,250</u>	<u>40,152</u>

At 31 December 2012, 2013 and 2014, the aging analysis of the trade payables (including amounts due to related parties of trade nature) based on invoice date is as follows:

Group

	As at 31 December		
	2012	2013	2014
	RMB'000	RMB'000	RMB'000
Within one year	138,600	168,983	440,275
One to two years	18,688	92,319	66,584
Two to three years	15,086	11,391	13,363
Over three years	—	—	1,835
	<u>172,374</u>	<u>272,693</u>	<u>522,057</u>

32. Borrowings

Group

	As at 31 December		
	2012	2013	2014
	RMB'000	RMB'000	RMB'000
Non-current			
Long-term bank borrowings			
— Secured	334,864	320,568	489,332
— Unsecured	11,095	11,095	19,545
	345,959	331,663	508,877
Other borrowings — unsecured	—	—	6,000
Corporate bonds — unsecured	—	—	396,838
	345,959	331,663	911,715
Less: current portion of long-term borrowings			
Bank borrowings			
— Secured	(82,314)	(130,839)	(38,814)
— Unsecured	—	—	(3,909)
	(82,314)	(130,839)	(42,723)
	263,645	200,824	868,992
Current			
Short-term bank borrowings			
— Secured	100,000	—	—
— Unsecured	27,950	280,568	225,000
	127,950	280,568	225,000
Other borrowings — unsecured	261,035	43,550	2,600
Current portion of long-term bank borrowings	82,314	130,839	42,723
	471,299	454,957	270,323
Total	734,944	655,781	1,139,315
Denominated in:			
— RMB	703,264	623,716	1,112,271
— Euro	31,680	32,065	27,044
	734,944	655,781	1,139,315

Company

	As at 31 December		
	2012	2013	2014
	RMB'000	RMB'000	RMB'000
Non-current			
Corporate bonds — unsecured	—	—	396,838
Current			
Short-term bank borrowings			
— Secured	100,000	100,000	100,000
— Unsecured	—	100,000	—
Other borrowings — unsecured	165,188	—	—
	<u>265,188</u>	<u>200,000</u>	<u>100,000</u>
Total	<u>265,188</u>	<u>200,000</u>	<u>496,838</u>
Denominated in:			
— RMB	<u>265,188</u>	<u>200,000</u>	<u>496,838</u>

(a) **Borrowings**

The Group's borrowings carried weighted average interest rates of 6.36%, 6.44% and 6.84% per annum for the years ended 31 December 2012, 2013 and 2014, respectively.

As at 31 December 2012, 2013 and 2014, bank borrowings of RMB403,184,000, RMB288,503,000 and RMB462,288,000 were secured by pledge of the Group's buildings and machineries and concession rights and guarantee provided by the related parties.

As at 31 December 2012, 2013 and 2014, bank borrowings of RMB31,680,000, RMB32,065,000 and RMB27,044,000 were guaranteed by a PRC local government.

As at 31 December 2012, 2013 and 2014, the Group's and Company's borrowings were repayable as follows:

Group

	As at 31 December		
	2012	2013	2014
	RMB'000	RMB'000	RMB'000
Bank borrowings			
Within one year	210,264	411,407	267,723
One to two years	85,794	88,840	57,587
Two to five years	113,478	53,456	228,284
Over five years	64,373	58,528	180,283
	<u>473,909</u>	<u>612,231</u>	<u>733,877</u>
Corporate bonds and other borrowings			
Within one year	261,035	43,550	2,600
One to two years	—	—	6,000
Two to five years	—	—	396,838
	<u>261,035</u>	<u>43,550</u>	<u>405,438</u>
	<u>734,944</u>	<u>655,781</u>	<u>1,139,315</u>

Group

	As at 31 December		
	2012	2013	2014
	RMB'000	RMB'000	RMB'000
Bank borrowings			
Wholly repayable within five years	370,134	512,071	411,833
Wholly repayable over five years	103,775	100,160	322,044
	<u>473,909</u>	<u>612,231</u>	<u>733,877</u>
Corporate bonds and other borrowings			
Wholly repayable within five years	261,035	43,550	405,438
	<u>734,944</u>	<u>655,781</u>	<u>1,139,315</u>

Company

	As at 31 December		
	2012	2013	2014
	RMB'000	RMB'000	RMB'000
Bank borrowings			
Within one year	<u>100,000</u>	<u>200,000</u>	<u>100,000</u>
Corporate bonds and other borrowings			
Within one year	165,188	—	—
Two to five years	<u>—</u>	<u>—</u>	<u>396,838</u>
	<u>165,188</u>	<u>—</u>	<u>396,838</u>
	<u>265,188</u>	<u>200,000</u>	<u>496,838</u>

Company

	As at 31 December		
	2012	2013	2014
	RMB'000	RMB'000	RMB'000
Bank borrowings			
Wholly repayable within five years	<u>100,000</u>	<u>200,000</u>	<u>100,000</u>
Corporate bonds and other borrowings			
Wholly repayable within five years	165,188	—	396,838
	<u>265,188</u>	<u>200,000</u>	<u>496,838</u>

The exposure of the Group's borrowings to interest rate changes and the contractual repricing dates at the end of each of the year are as follows:

Group

	As at 31 December		
	2012	2013	2014
	RMB'000	RMB'000	RMB'000
Within six months	471,306	366,524	119,656
Six months to one year	88,473	173,459	439,165
One to five years	139,792	80,269	561,560
Over five years	<u>35,373</u>	<u>35,529</u>	<u>18,934</u>
	<u>734,944</u>	<u>655,781</u>	<u>1,139,315</u>

Company

	As at 31 December		
	2012	2013	2014
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Within one year	265,188	200,000	100,000
One to five years	—	—	396,838
	<u>265,188</u>	<u>200,000</u>	<u>496,838</u>

The carrying amounts of the Group's borrowings approximate their fair value.

(b) Corporate bonds

On 18 June 2014, the Company issued corporate bonds in the principal of RMB400,000,000 which will be matured in three years and bear interest of 7.7% per annum.

33. Deferred income

Amounts represented government grants in respect of the Group's construction of waste water treatment and water supply facilities as well as the provision of water distribution service.

Government grants relating to service costs are recognised in the income statement over the period necessary to match them with the costs that they are intended to compensate.

Government grants relating to property, plant and equipment are recognised in the consolidated income statement on a straight-line basis over the expected lives of the related assets.

34. Deferred income tax

Group

	As at 31 December		
	2012	2013	2014
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Deferred tax assets:			
— Deferred tax asset to be recovered within 12 months	7,624	6,228	11,547
— Deferred tax asset to be recovered after 12 months	<u>13,927</u>	<u>12,254</u>	<u>27,788</u>
	<u>21,551</u>	<u>18,482</u>	<u>39,335</u>
Deferred tax liabilities:			
— Deferred tax liability to be recovered after 12 months	<u>(3,233)</u>	<u>(9,127)</u>	<u>(52,796)</u>
Deferred tax assets/ (liabilities), net	<u><u>18,318</u></u>	<u><u>9,355</u></u>	<u><u>(13,461)</u></u>

Company

	As at 31 December		
	2012	2013	2014
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Deferred tax assets:			
— Deferred tax asset to be recovered within 12 months	1,674	1,067	16,459
— Deferred tax asset to be recovered after 12 months	<u>—</u>	<u>4,846</u>	<u>—</u>
Deferred tax assets, net	<u><u>1,674</u></u>	<u><u>5,913</u></u>	<u><u>16,459</u></u>

The movement in deferred income tax assets and liabilities during the year, without taking into accounts for the offsetting of balances within the same tax jurisdiction, is as follows:

Group

Deferred tax assets	Staff welfare benefit payable	Provision	Government grant	Accrued expenses	Tax losses	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
At 1 January 2012	897	835	4,426	217	456	6,831
Credit to income statement	139	1,047	13,613	881	1,337	17,017
At 31 December 2012	1,036	1,882	18,039	1,098	1,793	23,848
Credit/(charge) to income statement	499	665	(8,248)	(910)	4,112	(3,882)
At 31 December 2013	1,535	2,547	9,791	188	5,905	19,966
Credit to income statement	3,458	2,363	3,471	2,432	13,147	24,871
At 31 December 2014	<u>4,993</u>	<u>4,910</u>	<u>13,262</u>	<u>2,620</u>	<u>19,052</u>	<u>44,837</u>

Deferred tax liabilities	Service concession receivables	Fair value gains	Accelerated tax depreciation	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
At 1 January 2012	(1,946)	—	—	(1,946)
Charge to income statement	(3,584)	—	—	(3,584)
At 31 December 2012	(5,530)	—	—	(5,530)
Charge to income statement	(2,074)	—	(651)	(2,725)
Acquisition of subsidiaries	—	(2,356)	—	(2,356)
At 31 December 2013	(7,604)	(2,356)	(651)	(10,611)
(Charge)/ credit to income statement	(17,683)	503	(2,044)	(19,224)
Acquisition of subsidiaries	—	(28,463)	—	(28,463)
At 31 December 2014	<u>(25,287)</u>	<u>(30,316)</u>	<u>(2,695)</u>	<u>(58,298)</u>

Company

Deferred tax assets	Staff welfare benefit payable	Provision	Government grant	Accrued expenses	Tax losses	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
At 1 January 2012	479	—	—	117	—	596
Credit to the income statement	222	6	—	850	—	1,078
At 31 December 2012	701	6	—	967	—	1,674
Credit/(charge) to the income statement	349	(4)	75	(967)	4,786	4,239
At 31 December 2013	1,050	2	75	—	4,786	5,913
Credit to the income statement	984	1,117	—	—	8,770	10,871
At 31 December 2014	<u>2,034</u>	<u>1,119</u>	<u>75</u>	<u>—</u>	<u>13,556</u>	<u>16,784</u>
						Service concession receivables
						<i>RMB'000</i>
At 1 January 2014	—					
Charge to income statement	(325)					
At 31 December 2014	<u>(325)</u>					

35. Provisions

	Maintenance costs	Employee benefit	Total
	RMB'000 (note a)	RMB'000	RMB'000
At 1 January 2012	459	—	459
Provision charged to income statement (note 10)	30	—	30
At 31 December 2012	489	—	489
Provision capitalised in intangible assets	1,587	—	1,587
Provision charged to income statement (note 10)	65	—	65
At 31 December 2013	2,141	—	2,141
Acquisition of subsidiaries	—	3,971	3,971
Provision capitalised in intangible assets	7,570	—	7,570
Provision charged to income statement (note 10)	769	—	769
Paid during year	—	(43)	(43)
At 31 December 2014	<u>10,480</u>	<u>3,928</u>	<u>14,408</u>

- (a) Pursuant to the service concession agreements entered into by the Group, the Group has the contractual obligations to maintain the facilities it operates to specified level of serviceability and/or to restore the plants 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 elements, are recognised and measured in accordance with HKAS 37 at the best estimate of the expenditure that would be required to settle the present obligation at the end of each of the Related Periods.

36. Cash (used in)/generated from operations

	Year ended 31 December		
	2012	2013	2014
	RMB'000	RMB'000	RMB'000
Profit before income tax	160,086	252,233	226,157
Adjustments for:			
— Bad debt provision	4,368	2,838	8,345
— Amortisation of investment property	121	255	329
— Amortisation of land use right	840	934	2,932
— Amortisation of intangible assets	144	1,318	8,631
— Depreciation of property, plant and equipment	29,095	32,787	46,054
— Share of losses/(profit) from investments accounted for using equity method	4,386	(7,796)	(10,942)
— Dividend income on available-for-sale financial assets	—	(357)	(453)
— Finance costs — net	9,388	11,592	26,593
— Disposal (gain)/loss of investments	(71,898)	(8,642)	536
— Disposal (gain)/loss of property, plant and equipment, land use rights and other intangible assets	(29)	4	(3,273)
— Negative goodwill	—	(304)	—
Changes in working capital (excluding the effects of acquisition and currency translation differences on consolidation)			
— Inventories and amount due from customers for contract works	(7,987)	4,509	(187,780)
— Trade and other receivables and receivables under concession arrangements	(209,648)	(332,429)	(682,370)
— Trade and other payables	13,551	86,777	158,380
— Deferred income	22,570	(560)	(27,593)
Cash (used in)/generated from operations	(45,013)	43,159	(434,454)

In the statement of cash flows, proceeds from sale of property, plant and equipment, land use rights and other intangible assets comprise:

Group	Year ended 31 December		
	2012	2013	2014
	RMB'000	RMB'000	RMB'000
Net book amount	91	524	26,855
Profit/(loss) on disposal of property, plant and equipment, land use rights and other intangible assets	29	(4)	3,273
Disposal consideration not settled	—	—	(4,350)
Proceeds from disposal of property, plant and equipment, land use rights and other intangible assets	<u>120</u>	<u>520</u>	<u>25,778</u>

Non-cash transactions

The principal non-cash transactions are (1) during the years ended 31 December 2012, 2013 and 2014, the Group offset the amounts due from YMCI and the borrowings amounting to RMB41,096,000, RMB58,180,000 and RMB146,503,000, respectively; and (2) the Group offset the amounts due from and amounts due to Jinghong Investment amounting to RMB17,750,000 for the year ended 31 December 2014.

37. Commitments

(a) *Capital commitment*

Capital expenditure contracted for but not yet incurred as of 31 December 2012, 2013 and 2014, is as follows:

Group

	As at 31 December		
	2012	2013	2014
	RMB'000	RMB'000	RMB'000
Property, plant and equipment	<u>48,345</u>	<u>113,858</u>	<u>323,779</u>

(b) *Operating lease commitments — Group as lessee*

The Group has leased various offices and warehouses under non-cancellable operating lease agreements. The lease terms are between 1 and 10 years.

The Group had future aggregate minimum lease rental payments under non-cancellable operating leases as follows:

Group

	As at 31 December		
	2012	2013	2014
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Within one year	44	333	2,995
One to five years	235	579	1,477
Over five years	224	170	54
	<u>503</u>	<u>1,082</u>	<u>4,526</u>

38. Business combination

(a) OriginWater Technology

OriginWater Technology was jointly set up by the Company and Beijing OriginWater in 2010. The Company and Beijing OriginWater held 50% equity interest in OriginWater Technology respectively. OriginWater Technology's principal activities are production and sales of environmental protection equipment. On 30 September 2012, Beijing OriginWater transferred its 50% equity interest in OriginWater Technology to the Company as its capital injection to the Company. OriginWater Technology became the wholly owned subsidiary of the Company.

The acquired business has contributed revenues of RMB133,838,000 and net profit of RMB23,969,000 to the Group for the period from 30 September 2012 to 31 December 2012. Had OriginWater Technology been consolidated on 1 January 2012, the consolidated income statement of the Group for the year ended 31 December 2012 would show pro-forma revenue of RMB423,090,000 and net profit of RMB126,137,000.

The following table summarises the consideration paid for OriginWater Technology, the fair value of assets acquired and liabilities assumed at the acquisition date.

RMB'000

Consideration:

— Fair value of 50% equity interest in OriginWater Technology held by the Company	33,868
— Capital injection by Beijing OriginWater	33,868
	<u>67,736</u>

Fair value of identifiable net assets acquired

Cash and cash equivalents	56,542
Trade and other receivables	92,251
Inventory	28,465
Property, plant and equipment	21,491
Other long-term assets	36
Borrowings	(21,182)
Trade and other payables	<u>(109,867)</u>
Total identifiable net assets	67,736
% of the equity interest	<u>100%</u>
	<u>67,736</u>

Goodwill

—

(b) Mengla Quanyuan Water Distribution Co., Ltd. ("Quanyuan Water")

Quanyuan Water's principal activity is water distribution. On 26 April 2013, the Group acquired 100% equity interest of Quanyuan Water from certain independent third parties.

The acquired business has contributed revenues of RMB5,192,000 and net profit of RMB997,000 to the Group for the period from 26 April 2013 to 31 December 2013. Had Quanyuan Water been consolidated from 1 January 2013, the consolidated income statement of the Group for the year ended 31 December 2013 would show pro-forma revenue of RMB691,107,000 and net profit of RMB201,162,000.

The following table summarises the consideration paid for acquisition of Quanyuan Water, the fair value of assets acquired and liabilities assumed at the acquisition date.

	<i>RMB'000</i>
Consideration:	
— Cash	11,514
— Unpaid consideration	<u>2,884</u>
Total consideration	<u>14,398</u>
Fair value of identifiable net assets acquired	
Cash and cash equivalents	905
Inventory	1,035
Property, plant and equipment	14,204
Land use rights	2,906
Borrowings	(3,100)
Trade and other payables	<u>(1,248)</u>
Total identifiable net assets	<u>14,702</u>
Other gains	<u>(304)</u>

(c) ***Guoqing Environmental***

Guoqing Environmental's principal activities are construction and operation of sewage treatment facilities. On 27 September 2013, the Company acquired 60% equity interest of Guoqing Environmental from an independent third party.

The acquired business has contributed revenues of RMB30,152,000 and net profit of RMB9,107,000 to the Group for the period from 27 September 2013 to 31 December 2013. Had Guoqing Environmental been consolidated from 1 January 2013, the consolidated income statement of the Group for the year ended 31 December 2013 would show pro-forma revenue of RMB705,190,000 and net profit of RMB202,932,000.

The following table summarises the consideration paid for acquisition of Guoqing Environmental, the fair value of assets acquired and liabilities assumed at the acquisition date.

	<i>RMB'000</i>
Consideration:	
— Cash	7,800
— unpaid consideration	<u>5,200</u>
Total consideration	<u>13,000</u>
Fair value of identifiable net assets acquired	
Cash and cash equivalents	1,240
Trade and other receivables	52,479
Inventories	1,481
Property, plant and equipment	400
Intangible asset	7,742
Deferred tax assets	119
Trade and other payables	(40,045)
Deferred tax liabilities	<u>(2,475)</u>
Total identifiable net assets	20,941
Non-controlling interests	<u>(8,976)</u>
	<u>11,965</u>
Goodwill	<u><u>1,035</u></u>

(d) ***Liuku Water***

Liuku Water's principal activity is water distribution. On 27 June 2014, the Company acquired 100% equity interest of Liuku Water from Lushui County Bureau of Finance (瀘水縣財政局).

The acquired business has contributed revenues of RMB7,523,000 and net loss of RMB2,383,000 to the Group for the period from 27 June 2014 to 31 December 2014. Had Liuku Water been consolidated from 1 January 2014, the consolidated income statement of the Group for the year ended 31 December 2014 would show pro-forma revenue of RMB1,107,725,000 and net profit of RMB191,589,000.

The following table summarises the consideration paid for acquisition of Liuku Water, the fair value of assets acquired and liabilities assumed at the acquisition date.

	<i>RMB'000</i>
Consideration:	
— Cash	45,000
— unpaid consideration	<u>8,500</u>
Total consideration	<u>53,500</u>
Fair value of identifiable net assets acquired	
Cash and cash equivalents	8,020
Trade and other receivables	33
Inventories	1,312
Property, plant and equipment	79,935
Deferred tax assets	329
Trade and other payables	(9,772)
Provision for employee benefits	(1,314)
Borrowings	(21,750)
Deferred tax liabilities	<u>(3,293)</u>
Total identifiable net assets	<u>53,500</u>
Goodwill	<u><u>—</u></u>

(e) **Beijing Clean**

Beijing Clean's principal activities are construction services and municipal waste disposal. On 20 January 2014, the Company acquired 52.38% equity interest of Beijing Clean from certain independent third parties and became the controlling shareholder of Beijing Clean.

The acquired business has contributed revenues of RMB18,480,000 and net loss of RMB2,674,000 to the Group for the period from 20 January 2014 to 31 December 2014. Had Beijing Clean been consolidated from 1 January 2014, the consolidated income statement of the Group for the year ended 31 December 2014 would show pro-forma revenue of RMB1,101,197,000 and net profit of RMB186,961,000.

The following table summarises the consideration paid for acquisition of Beijing Clean, the fair value of assets acquired and liabilities assumed at the acquisition date.

	<i>RMB'000</i>
Consideration:	
— Cash	11,642
— unpaid consideration	<u>—</u>
Total consideration	<u>11,642</u>
Fair value of identifiable net assets acquired	
Cash and cash equivalents	8,871
Trade and other receivables	28,094
Inventories	2,421
Non-current assets held-for-sale	7,500
Property, plant and equipment	1,085
Intangible assets	16,204
Deferred tax assets	363
Trade and other payables	(44,174)
Deferred tax liabilities	<u>(796)</u>
Total identifiable net assets	19,568
Non-controlling interests	<u>(8,806)</u>
	<u>10,762</u>
Goodwill	<u><u>880</u></u>

(f) ***Wuxi Zhongfa Water***

Wuxi Zhongfa Water's principal activities are construction service and sewage treatment. On 26 May 2014, the Company acquired 75% equity interest of Wuxi Zhongfa Water from an independent third party and became the controlling shareholder of Wuxi Zhongfa Water.

The acquired business has contributed revenues of RMB20,972,000 and net loss of RMB2,627,000 to the Group for the period from 26 May 2014 to 31 December 2014. Had Wuxi Zhongfa Water been consolidated from 1 January 2014, the consolidated income statement of the Group for the year ended 31 December 2014 would show pro-forma revenue of RMB1,105,184,000 and net profit of RMB187,980,000.

The following table summarises the consideration paid for acquisition of Wuxi Zhongfa Water, the fair value of assets acquired and liabilities assumed at the acquisition date.

	<i>RMB'000</i>
Consideration:	
— Cash	122,430
— Unpaid consideration	<u>—</u>
Total consideration	<u>122,430</u>
Fair value of identifiable net assets acquired	
Cash and cash equivalents	16,301
Restricted cash	10,000
Trade and other receivables	309,350
Inventories	58
Property, plant and equipment	1,491
Borrowings	(70,649)
Trade and other payables	(74,011)
Tax payables	(4,234)
Deferred tax liabilities	<u>(25,066)</u>
Total identifiable net assets	163,240
Non-controlling interests	<u>(40,810)</u>
	<u>122,430</u>
Goodwill	<u><u>—</u></u>

(g) ***Shandong Environmental***

Shandong Environmental was set up by the Company and Shandong Environmental Industry Investment and Development Co., Ltd. on 31 January 2014. Its principal activities are sales of environmental protection equipment. The Company injected cash of RMB36,000,000 accounting for 60% equity interests of Shandong Environmental, Shandong Environmental Industry Investment and Development Co., Ltd. injected cash of RMB1,000,000 and transferred its 100% equity interests in Shandong Lingang Water Treatment Co., Ltd. to Shandong Environmental accounting for 40% equity interests of Shandong Environmental. Thus, the Company controlled Shandong Environmental and in turn obtained the control on Shandong Lingang Water Treatment Co., Ltd.

The acquired business has contributed revenues of RMB78,746,000 and net profit of RMB7,229,000 to the Group for the period from 31 January 2014 to 31 December 2014. Had Shandong Environmental been consolidated from 1 January 2014, the consolidated income statement of the Group for the year ended 31 December 2014 would show pro-forma revenue of RMB1,110,761,000 and net profit of RMB187,804,000.

The following table summarises the consideration paid for acquisition of Shandong Environmental, the fair value of assets acquired and liabilities assumed at the acquisition date.

	<i>RMB'000</i>
Consideration:	
— Cash	18,000
— Unpaid consideration	<u>18,000</u>
Total consideration	<u>36,000</u>
Fair value of identifiable net assets acquired	
Cash and cash equivalents	18,061
Trade and other receivables	25,104
Receivables under service concession arrangements	16,930
Trade and other payables	<u>(95)</u>
Total identifiable net assets	60,000
Non-controlling interests	<u>(24,000)</u>
	<u>36,000</u>
Goodwill	<u>—</u>

(h) ***Sewage treatment project of Honghe (“Honghe Project”)***

Honghe Project's principal activity is sewage treatment. On 26 May 2014, the Company acquired Honghe Project from Honghe Autonomous Prefecture Government (紅河州人民政府).

The acquired business has contributed revenues of RMB13,398,000 and net profit of RMB2,006,000 to the Group for the period from 26 May 2014 to 31 December 2014. Had Honghe Project been consolidated from 1 January 2014, the consolidated income statement of the Group for the year ended 31 December 2014 would show pro-forma revenue of RMB1,109,347,000 and net profit of RMB194,155,000.

The following table summarises the consideration paid for acquisition of Honghe Project, the fair value of assets acquired and liabilities assumed at the acquisition date.

	<i>RMB'000</i>
Consideration:	
— Cash	—
— Unpaid consideration	136,692
Total consideration	<u>136,692</u>
Fair value of identifiable net assets acquired	
Property, plant and equipment	90,034
Intangible assets	20,694
Land use rights	28,621
Provision for employee benefits	<u>(2,657)</u>
Total identifiable net assets	<u>136,692</u>
Goodwill	<u>—</u>

39. Related party transactions

(a) *Name and relationship with related parties*

Name	Relationship
Yunnan Province Water	Shareholder of the Company
Beijing OriginWater	Shareholder of the Company
Finergy Development	Shareholder of the Company
Kunming Ruiyuan (note 7)	Joint venture of the Group in 2011 and 2012
OriginWater Technology (note (i))	Joint venture of the Group in 2011
Wenshan Water	Joint venture of the Group
Maguan Water Industry Investment Co., Ltd (“Maguan Water”)	Subsidiary of a joint venture of the Group
Jinghong Haotai (note 7)	Associate of the Group in 2011
YMCI	Shareholder of Yunnan Province Water
Manting Garden Co., Ltd. (“Manting Garden”)	Subsidiary of YMCI
Jinghong Municipal Investment and Development Co., Ltd. (“Jinghong Investment”)	Subsidiary of YMCI

Name	Relationship
Jinghong Municipal Investment Garden Landscape Company Limited ("Jinghong Investment GL")	Subsidiary of YMCI
Jinghong Municipal Investment Property Management Company Limited ("Jinghong Investment PM")	Subsidiary of YMCI
Beijing Yunnan Tower Hotel Management Co., Ltd. ("Yunnan Hotel Management")	Subsidiary of YMCI
Yunnan Chengjiang Eagle Tourist Resort Co., Ltd. ("Yunnan Chengjiang Eagle")	Subsidiary of YMCI
Yunnan City Voted Erhai Real Estate Limited	Subsidiary of YMCI
Yunnan Construction Engineering Group Co., Ltd. ("Yunnan Construction") (note (c))	State-owned enterprises
The 14th Metallurgical Construction Corporation Ltd. ("The 14th Metallurgical Construction") (note (c))	State-owned enterprises

- (i) Before 30 September 2012, OriginWater Technology was a joint venture to the Group. On 30 September 2012, the Company acquired the other 50% equity interest in OriginWater Technology and OriginWater Technology became a wholly owned subsidiary of the Company (note 38(a)).

(b) Transactions with related parties

During the years ended 31 December 2012, 2013 and 2014, the Group had the following significant transactions with related entities which are carried out on terms agreed with the counter parties in the ordinary course of business:

(i) Purchase of goods and construction services

	Year ended 31 December		
	2012	2013	2014
	RMB'000	RMB'000	RMB'000
Yunnan Construction	16,640	384,483	486,579
Beijing OriginWater	469	71,268	3,414
The 14th Metallurgical Construction	13,665	9,067	4,381
	<u>30,774</u>	<u>464,818</u>	<u>494,374</u>

(ii) *Sales of goods*

	Year ended 31 December		
	2012	2013	2014
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Yunnan Construction	—	258,549	94,623
The 14th Metallurgical Construction	10,875	—	202,162
Yunnan City Construction Erhai Real Estate Limited	—	—	3,110
Yunnan Chengjiang Eagle	—	4,135	2,222
Beijing OriginWater	42,339	—	—
	<u>53,214</u>	<u>262,684</u>	<u>302,117</u>

(iii) *Transactions under finance arrangement*

	Year ended 31 December		
	2012	2013	2014
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Funds from related parties			
— Shareholders of the Company	—	101,500	618
— Subsidiaries of YMCI	80,229	20,421	6,322
	<u>80,229</u>	<u>121,921</u>	<u>6,940</u>
Funds to related parties			
— YMCI	130,000	—	200,000
— Shareholders of the Company	34,090	6,186	—
— Joint ventures	113	75	63,046
— Yunnan Construction	—	101,500	—
— Subsidiaries of YMCI	44,206	52,211	2,169
	<u>208,409</u>	<u>159,972</u>	<u>265,215</u>

The funding arrangement between the Group and related parties are denominated and settled in RMB and repayable on demand and certain loans bear interest are set out in note (d) below.

(iv) *Interest income and interest expense*

	Year ended 31 December		
	2012	2013	2014
	RMB'000	RMB'000	RMB'000
Interest income of funds to related parties			
— YMCI	11,720	9,809	200
— Subsidiaries of YMCI	253	1,887	1,232
— Joint ventures	—	—	202
	<u>11,973</u>	<u>11,696</u>	<u>1,634</u>
Interest expense of funds from related parties			
— Shareholders of the Company	10,063	3,411	—
— Subsidiaries of YMCI	<u>1,160</u>	<u>2,575</u>	<u>1,232</u>
	<u>11,223</u>	<u>5,986</u>	<u>1,232</u>

(v) *Key management compensation*

Key management includes executive directors. The compensation paid or payable to key management for employee services is shown below:

	Year ended 31 December		
	2012	2013	2014
	RMB'000	RMB'000	RMB'000
Salaries and other benefits	<u>1,578</u>	<u>1,991</u>	<u>3,637</u>

(vi) *Guarantee*

	Year ended 31 December		
	2012	2013	2014
	RMB'000	RMB'000	RMB'000
Guarantee provided by related parties in respect of the borrowings of the Group			
— YMCI	100,000	—	—
— Jinghong Investment	<u>37,500</u>	<u>75,000</u>	<u>22,500</u>
	<u>137,500</u>	<u>75,000</u>	<u>22,500</u>

The related parties have not charged the Group any fee for providing above guarantee to the Group.

(c) Transactions with other state-owned enterprises

In accordance with HKAS 24 "Related Party Disclosures", state-owned enterprises and their subsidiaries, directly or indirectly controlled by the PRC Government are regarded as related parties of the Group.

The Group operates in an economic environment predominated by state-owned enterprises. During the years ended 31 December 2012, 2013 and 2014, the Group had transactions with state-owned enterprises including, but not limited to, operating services, construction services and equipment sales.

These transactions are conducted in the ordinary course of the Group's business on terms comparable to those with other entities that are not state-owned. The Group has established its pricing strategy and approval process for purchase and sales of products and services. Such pricing strategy approval processes are consistently applied regardless of the counterparties are state-owned entities or not. Having due regard to the substance of the relationships, the directors of the Company are of the opinion that none of these transactions are material related party transactions that require separate disclosure except for the transactions with Yunnan Construction and The 14th Metallurgical Construction as disclosed above.

(d) Balance with related parties**Group**

	As at 31 December		
	2012	2013	2014
	RMB'000	RMB'000	RMB'000
Trade receivables — current			
— Beijing OriginWater	19,127	4,127	4,127
— Yunnan City Voted Erhai Real Estate Limited	—	—	3,110
— Yunnan Construction	19,266	79,843	185,606
— The 14th Metallurgical Construction	7,639	1,087	122,426
— Yunnan Chengjiang Eagle	—	2,170	2,593
	<u>46,032</u>	<u>87,227</u>	<u>317,862</u>

The balances are denominated in RMB, unsecured, interest free and repayable on demand.

Group

	As at 31 December		
	2012	2013	2014
	RMB'000	RMB'000	RMB'000
Prepayments for purchase of goods			
— Beijing OriginWater	1,332	1,325	19,778
— Yunnan Construction	—	—	50,159
	<u>1,332</u>	<u>1,325</u>	<u>69,937</u>

The balances are denominated in RMB, current, unsecured and interest free.

Group

	As at 31 December		
	2012	2013	2014
	RMB'000	RMB'000	RMB'000
Amounts due from related parties without interest bearing (*)			
— Yunnan Province Water	1,228	6,186	—
— Maguan Water	113	109	133
— Manting Garden	1,093	—	—
— Jinghong Investment GL	205	—	—
— Wenshan Water	—	8	25
— Jinghong Investment PM	138	—	—
— Beijing OriginWater	32,970	—	—
— YMCI	19,399	—	—
	<u>55,146</u>	<u>6,303</u>	<u>158</u>
Amounts due from related parties with interest bearing (**)			
— Wenshan Water	—	—	63,000
— Jinghong Investment	14,000	21,044	—
— YMCI – current portion	279,495	70,813	—
— YMCI – non-current portion	133,870	75,690	—
	<u>427,365</u>	<u>167,547</u>	<u>63,000</u>

Company

	As at 31 December		
	2012	2013	2014
	RMB'000	RMB'000	RMB'000
Amounts due from related parties without interest bearing (*)			
— Subsidiaries	405,144	645,849	1,055,205
— Yunnan Province Water	—	6,186	—
— Maguan Water	107	109	133
— Wenshan Water	—	8	25
— YMCI	19,399	—	—
	<u>424,650</u>	<u>652,152</u>	<u>1,055,363</u>
Amounts due from related parties with interest bearing (**)			
— Wenshan Water	—	—	63,000
— YMCI - current portion	<u>208,682</u>	<u>—</u>	<u>—</u>
	<u>208,682</u>	<u>—</u>	<u>63,000</u>

* The balances are denominated in RMB, unsecured, interest free and repayable on demand.

** The balances are denominated in RMB, unsecured, repayable on demand, with the interest rate ranging from 6.00% to 7.38% per annum.

Group

	As at 31 December		
	2012	2013	2014
	RMB'000	RMB'000	RMB'000
Trade payables — current			
— The 14th Metallurgical Construction	5,909	1,839	2,114
— Yunnan Construction	—	—	143,287
— Beijing OriginWater	<u>—</u>	<u>30,537</u>	<u>—</u>
	<u>5,909</u>	<u>32,376</u>	<u>145,401</u>

Group

	As at 31 December		
	2012	2013	2014
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Amounts due to related parties without interest bearing			
— Yunnan Construction	—	11,181	37,276
— Yunnan Province Water	—	—	389
— Jinghong Investment	9	134	—
— Beijing OriginWater	—	—	229
	<u>9</u>	<u>11,315</u>	<u>37,894</u>

The balances are denominated in RMB, unsecured, interest free and repayable on demand.

	As at 31 December		
	2012	2013	2014
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Amounts due to related parties with interest bearing			
— Yunnan Province Water	165,188	—	—
— Jinghong Investment	<u>71,348</u>	<u>18,750</u>	<u>—</u>
	<u>236,536</u>	<u>18,750</u>	<u>—</u>

The balances with interest bearing are denominated in RMB, unsecured, repayable on demand and bearing interest at rates ranging from 5.14% to 6.02% per annum.

III. Additional financial information of OriginWater Technology for the pre-acquisition period

OriginWater Technology was acquired by the Group on 30 September 2012. The following is the financial information of OriginWater Technology for the nine months ended 30 September 2012.

(1) *Statements of comprehensive income*

	Note	Nine months ended 30 September 2012
		<i>RMB'000</i>
Revenue	(vii)	24,569
Cost of sales	(viii)	(19,267)
Gross profit		5,302
Other income		—
Other gains		299
Selling expenses	(viii)	(1,191)
Administrative expenses	(viii)	(4,160)
Operating profit		250
Finance costs		(203)
Profit before income tax		47
Income tax expenses	(ix)	(21)
Profit for the period		26
Other comprehensive income		—
Total comprehensive income for the period, net of tax		26
Attributable to:		
Owners of the Company		26
Non-controlling interests		—

(2) *Balance sheets*

	Note	As at 30 September 2012
		<i>RMB'000</i>
ASSETS		
Non-current assets		
Property, plant and equipment	(i)	21,491
Intangible asset		5
Deferred income tax assets		31
		<u>21,527</u>
Current assets		
Cash and cash equivalents	(ii)	56,542
Trade and other receivables	(iii)	92,251
Inventories	(iv)	28,465
		<u>177,258</u>
Total assets		<u><u>198,785</u></u>
EQUITY		
Capital and reserves attributable to owner of OriginWater Technology		
Share capital and premium		60,000
Reserves		771
Retained earnings		6,965
Total equity		<u>67,736</u>
LIABILITIES		
Current liabilities		
Borrowings	(v)	21,182
Trade and other payables	(vi)	109,867
Total liabilities		<u>131,049</u>
Total equity and liabilities		<u><u>198,785</u></u>
Net current assets		<u><u>46,240</u></u>
Total assets less current liabilities		<u><u>67,736</u></u>

(3) *Statements of cash flows*

		Nine months ended 30 September 2012
		<u>RMB'000</u>
Cash flows from operating activities		
Cash used in operations	(xii)	(6,211)
Income tax paid		<u>(22)</u>
Net cash used in operating activities		<u>(6,233)</u>
Cash flows from investing activities		
Purchases of property, plant and equipment		<u>(260)</u>
Net cash used in investing activities		<u>(260)</u>
Cash flows from financing activities		
Proceeds from bank borrowings		<u>21,182</u>
Net cash generated from financing activities		<u>21,182</u>
Net increase in cash and cash equivalents		14,689
Cash and cash equivalents at beginning of period		<u>41,853</u>
Cash and cash equivalents at end of period		<u><u>56,542</u></u>

(4) *Statements of changes in equity*

	Attributable to owners of OriginalWater Technology				Non- controlling interests	Total Equity
	Paid-in capital	Reserves	Retained earnings	Total		
	<u>RMB'000</u>	<u>RMB'000</u>	<u>RMB'000</u>	<u>RMB'000</u>	<u>RMB'000</u>	<u>RMB'000</u>
Balance at 1 January 2012	60,000	771	6,939	67,710	—	67,710
Profit for the period	<u>—</u>	<u>—</u>	<u>26</u>	<u>26</u>	<u>—</u>	<u>26</u>
Balance at 30 September 2012	<u>60,000</u>	<u>771</u>	<u>6,965</u>	<u>67,736</u>	<u>—</u>	<u>67,736</u>

Notes to pre-acquisition financial information of OriginalWater Technology

(i) *Property, plant and equipment*

	Motor vehicles	Electronic equipment and others	Construction in progress	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Nine months ended 30 September 2012				
Opening net book amount	2,349	211	18,935	21,495
Additions	—	14	246	260
Depreciation	(190)	(74)	—	(264)
Closing net book amount	<u>2,159</u>	<u>151</u>	<u>19,181</u>	<u>21,491</u>
At 30 September 2012				
Cost	2,544	351	19,181	22,076
Accumulated depreciation	(385)	(200)	—	(585)
Net book amount	<u>2,159</u>	<u>151</u>	<u>19,181</u>	<u>21,491</u>

(ii) *Cash and cash equivalents*

	As at 30 September 2012
	<i>RMB'000</i>
Cash at bank and on hand	<u>56,542</u>

Cash and cash equivalents are denominated in RMB.

(iii) *Trade and other receivables*

	As at 30 September 2012
	<i>RMB'000</i>
Trade receivables	
— Third parties	40,032
Less: provision for impairment	<u>—</u>
Trade receivables — net	<u>40,032</u>
Other receivables due from:	
— Third parties	3,938
Less: provision for impairment	<u>(124)</u>
Other receivables — net	<u>3,814</u>
Prepayments	
— Third parties	47,940
— Related parties	<u>465</u>
	<u>48,405</u>
	<u><u>92,251</u></u>

In general, OriginWater Technology grants a credit period within 90 days to its customers. The aging analysis of gross trade receivables is as follows:

	As at 30 September 2012
	<i>RMB'000</i>
Within one year	76
One to two years	<u>39,956</u>
	<u><u>40,032</u></u>

(iv) *Inventories*

	As at 30 September 2012
	<i>RMB'000</i>
Raw materials	9,024
Goods in transit	<u>19,441</u>
	<u>28,465</u>

(v) *Borrowings*

	As at 30 September 2012
	<i>RMB'000</i>
Short term bank borrowings	
— Secured	<u>21,182</u>

As at 30 September 2012, bank borrowing of RMB21,182,000 was guaranteed by the Company.

(vi) *Trade and other payables*

	As at 30 September 2012
	<i>RMB'000</i>
Trade payables	
— Third parties	<u>14,206</u>
Other payables due to:	
— Related parties	50,000
— Third parties	<u>2,991</u>
	<u>52,991</u>
Advances from customers	
— Related parties	36,312
— Third parties	<u>6,358</u>
	<u>42,670</u>
	<u>109,867</u>

At 30 September 2012, the aging analysis of the trade payables based on invoice date is as follows:

	As at 30 September 2012
	<i>RMB'000</i>
Within one year	<u>14,206</u>

(vii) **Revenue**

	Nine months ended 30 September 2012
	<i>RMB'000</i>
Revenue from construction contracts	<u>24,569</u>

(viii) **Expenses by nature**

	Nine months ended 30 September 2012
	<i>RMB'000</i>
Employee benefit expenses	2,950
Auditor's remuneration	25
Depreciation of property, plant and equipment	264
Amortisation of land use right and intangible assets	1
Legal and professional fee	128
Travelling expenses	239
Entertainment expenses	540
Cost of construction and equipment sales	19,267
Others	<u>1,204</u>
	<u>24,618</u>

(ix) **Income tax expenses**

	Nine months ended 30 September 2012
	<i>RMB'000</i>
Profit before tax	47
Tax calculated at the statutory income tax rate of 25%	12
Tax effects of:	
— Expenses not deductible for tax purposes	9
Income tax expenses	21

(x) **Related party transactions**

During the nine months ended 30 September 2012, management is of the view that the following entities/ persons are related parties of Yunnan Original Water.

Name	Relationship
The Company	Shareholder
Yunnan Province Water	Shareholder of the Company
YMCI	Shareholder of Yunnan Province Water
Beijing OriginWater	Shareholder
Heqing Water	Subsidiary of YMCI
Yunnan Chengjiang Eagle	Subsidiary of YMCI
Maguan Water	Joint venture of the Company

(a) *Transaction with related parties*

During the nine months ended 30 September 2012, OriginWater Technology had the following material transactions with related parties:

	Nine months ended 30 September 2012
	<i>RMB '000</i>
(i) Purchase of goods	
— Beijing OriginWater	<u>527</u>
(ii) Key management compensation	
Salaries and other benefits	<u>738</u>
(iii) Guarantee	
Guarantee provided by the Company in respect of the loans of OriginWater Technology	<u>21,182</u>

(b) **Balances with related parties**

	Nine months ended 30 September 2012
	<i>RMB '000</i>
Prepayments	
— Beijing OriginWater	<u>465</u>
Amounts due to related parties without interest bearing	
— The Company	<u>50,000</u>
Advances received from related parties	
— Beijing OriginWater	30,410
— Heqing Water	526
— The Company	3,934
— Yunnan Chengjiang Eagle	460
— Maguan Water	<u>982</u>
	<u>36,312</u>

Note: The balances are denominated in RMB, unsecured, interest free and repayable on demand.

(xi) **Operating Lease commitment — as lessee**

OriginWater Technology leases office under non-cancellable operating lease agreements. The lease terms are within 3 years.

	Nine months ended 30 September 2012
	<i>RMB'000</i>
Within one year	<u>196</u>

(xii) **Cash generated from operations**

	Nine months ended 30 September 2012
	<i>RMB'000</i>
Profit before income tax	47
Adjustments for:	
— Amortisation of other intangible assets	2
— Depreciation of property, plant and equipment	264
Changes in working capital:	
— Inventories	(19,667)
— Trade and other receivables	(24,659)
— Trade and other payables	37,802
Cash generated from operations	<u>(6,211)</u>

IV. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Company or its subsidiaries in respect of any period subsequent to 31 December 2014 and up to the date of this report. Saved as disclosed in this report, no dividend or distribution has been declared, made or paid by the Company or its subsidiaries in respect of any period subsequent to 31 December 2014.

Yours faithfully,
PricewaterhouseCoopers
Certified Public Accountants
Hong Kong

The information set out in this Appendix does not form part of the Accountant's Report from the reporting accountant, PricewaterhouseCoopers, Certified Public Accountants, Hong Kong, as set out in Appendix I, and is included herein for illustrative purposes only. The unaudited pro forma financial information should be read in conjunction with the section entitled "Financial Information" in this prospectus and the Accountant's Report set out in Appendix I to this prospectus.

A. UNAUDITED PRO FORMA STATEMENT OF ADJUSTED NET TANGIBLE ASSETS

The following unaudited pro forma statement of adjusted net tangible assets of the Group prepared in accordance with Rule 4.29 of the Listing Rules is for illustrative purposes only, and is set out below to illustrate the effect of the Global Offering on the net tangible assets of the Group attributable to the owners of the Company as of 31 December 2014 as if the Global Offering had taken place on 31 December 2014 assuming the over-allotment is not exercised.

This unaudited pro forma statement of adjusted net tangible assets 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 the Group as at 31 December 2014 or at any future dates following the Global Offering. It is prepared based on the consolidated net assets of the Group as at 31 December 2014 as set out in the Accountant's Report of the Group, the text of which is set out in Appendix I to this prospectus, and adjusted as described below. The unaudited pro forma statement of adjusted net tangible assets does not form part of the Accountant's Report.

	Audited consolidated net tangible assets of the Group attributable to owners of the Company as at 31 December 2014 (Note 1)	Estimated net proceeds from the Global Offering (Note 2)	Unaudited pro forma adjusted net tangible assets attributable to owner of the Company as at 31 December 2014	Unaudited pro forma adjusted net tangible assets per Share (Note 3)	
	RMB'000	RMB'000	RMB'000	RMB	HK\$
Based on an Offer Price of HK\$5.00 per Share	<u>2,201,605</u>	<u>1,015,314</u>	<u>3,216,919</u>	<u>2.80</u>	<u>3.55</u>
Based on an Offer Price of HK\$5.80 per Share	<u>2,201,605</u>	<u>1,190,226</u>	<u>3,391,831</u>	<u>2.95</u>	<u>3.74</u>

Notes:

- (1) The audited consolidated net tangible assets attributable to owners of the Company as at 31 December 2014 is extracted from the Accountant's Report set out in Appendix I to this prospectus, which is based on the audited consolidated net assets of the Group attributable to owners of the Company as at 31 December 2014 of RMB2,384,246,000 with an adjustment for the intangible assets as at 31 December 2014 of RMB182,641,000.
- (2) The estimated net proceeds from the Global Offering are based on the indicative Offer Price of HK\$5.00 and HK\$5.80 per H Share after deduction of the underwriting fees and other related expenses paid/payable by the Company and takes no account of any shares which may fall to be issued upon the exercise of the Over-allotment Option or any Shares which may be granted and issued or repurchased by the Company.
- (3) The unaudited pro forma net tangible assets per Share is arrived at after the adjustments referred to in the preceding paragraphs and on the basis that 1,150,085,457 Shares were in issue assuming that the Global Offering has been completed on 31 December 2014 but takes no account of any Shares which may fall to be issued upon the exercise of the Over-allotment Option or any Shares which may be granted and issued or repurchased by the Company.
- (4) No adjustment has been made to reflect any trading result or other transactions of the Group entered into subsequent to 31 December 2014.
- (5) For the purpose of this unaudited pro forma adjusted net tangible assets statement, the balances stated in Renminbi are converted into Hong Kong dollars at the PBOC rate of HK\$1.00 to RMB0.7889 prevailing on 31 December 2014.

**B. REPORT FROM THE REPORTING ACCOUNTANT ON THE UNAUDITED PRO
FORMA FINANCIAL INFORMATION**

The following is the text of a report received from PricewaterhouseCoopers, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this prospectus.



羅兵咸永道

**INDEPENDENT REPORTING ACCOUNTANT'S ASSURANCE REPORT ON THE
COMPILATION OF UNAUDITED PRO FORMA FINANCIAL INFORMATION INCLUDED IN A
PROSPECTUS**

TO THE DIRECTORS OF YUNNAN WATER INVESTMENT CO., LIMITED

We have completed our assurance engagement to report on the compilation of unaudited pro forma financial information of Yunnan Water Investment Co., Limited (the "Company") and its subsidiaries (collectively the "Group") by the directors for illustrative purposes only. The unaudited pro forma financial information consists of the unaudited pro forma statement of adjusted net tangible assets of the Group as at 31 December 2014, and related notes (the "Unaudited Pro Forma Financial Information") as set out on pages II-1 to II-2 of the Company's prospectus dated 13 May 2015, in connection with the proposed initial public offering of H shares of the Company. The applicable criteria on the basis of which the directors have compiled the Unaudited Pro Forma Financial Information are described on pages II-1 to II-2.

The Unaudited Pro Forma Financial Information has been compiled by the directors to illustrate the impact of the proposed initial public offering on the Group's financial position as at 31 December 2014 as if the proposed initial public offering had taken place at 31 December 2014. As part of this process, information about the Group's financial position has been extracted by the directors from the Group's financial information for the year ended 31 December 2014, on which an accountant's report has been published.

Directors' Responsibility for the Unaudited Pro Forma Financial Information

The directors are responsible for compiling the Unaudited 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" ("AG 7") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

Reporting Accountant's Responsibilities

Our responsibility is to express an opinion, as required by paragraph 4.29(7) of the Listing Rules, on the Unaudited 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 Unaudited 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 complies with ethical requirements and plans and performs procedures to obtain reasonable assurance about whether the directors have compiled the Unaudited Pro Forma Financial Information in accordance with paragraph 4.29 of the Listing Rules and with reference to AG 7 issued by the HKICPA.

For purposes of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the Unaudited 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 Unaudited Pro Forma Financial Information.

The purpose of unaudited pro forma financial information included in a prospectus is solely to illustrate the impact of a significant event or transaction on unadjusted financial information of the entity as if the event had occurred or 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 proposed initial public offering at 31 December 2014 would have been as presented.

A reasonable assurance engagement to report on whether the unaudited 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 unaudited pro forma financial information provide a reasonable basis for presenting the significant effects directly attributable to the event or transaction, and to obtain sufficient appropriate evidence about whether:

- The related pro forma adjustments give appropriate effect to those criteria; and
- The unaudited pro forma financial information reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on the reporting accountant’s judgment, having regard to the reporting accountant’s understanding of the nature of the company, the event or transaction in respect of which the unaudited pro forma financial information has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the unaudited 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 Unaudited Pro Forma Financial Information has been properly compiled by the directors of the Company on the basis stated;
- (b) such basis is consistent with the accounting policies of the Group; and
- (c) the adjustments are appropriate for the purposes of the Unaudited Pro Forma Financial Information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

PricewaterhouseCoopers

Certified Public Accountants

Hong Kong, 13 May 2015

This Appendix contains a summary of laws and regulations on companies and securities in the PRC, certain major differences between the PRC Company Law and Companies (WUMP) Ordinance and the Companies Ordinance as well as the additional regulatory provisions of the Hong Kong Stock Exchange on joint stock limited companies of the PRC. The principal objective of this summary is to provide potential investors with an overview of the principal laws and regulations applicable to us. This summary is with no intention to include all the information which may be important to the potential investors. For discussion of laws and regulations specifically governing the business of the Company, please see “Regulatory Environment”.

PRC LEGAL SYSTEM

The PRC legal system is based on the Constitution of the PRC (《中華人民共和國憲法》) (the “**Constitution**”) and is made up of written laws, administrative regulations, local regulations, separate regulations, autonomous regulations, rules and regulations of departments, rules and regulations of local governments, international treaties of which the PRC Government is a signatory, and other regulatory documents. Court verdicts do not constitute binding precedents. However, they may be used as judicial reference and guidance.

According to the Constitution and the Legislation Law of the PRC (《中華人民共和國立法法》) (the “**Legislation Law**”), the NPC and the Standing Committee of the NPC are empowered to exercise the legislative power of the State. The NPC has the power to formulate and amend basic laws governing civil and criminal matters, state organs and other matters. The Standing Committee of the NPC is empowered to formulate and amend laws other than those required to be enacted by the NPC and to supplement and amend any parts of laws enacted by the NPC during the adjournment of the NPC, provided that such supplements and amendments are not in conflict with the basic principles of such laws.

The State Council is the highest organ of the PRC administration and has the power to formulate administrative regulations based on the Constitution and laws.

The people’s congresses of provinces, autonomous regions and municipalities and their respective standing committees may formulate local regulations based on the specific circumstances and actual requirements of their own respective administrative areas, provided that such local regulations do not contravene any provision of the Constitution, laws or administrative regulations.

The ministries and commissions of the State Council, PBOC, the State Audit Administration as well as the other organs endowed with administrative functions directly under the State Council may, in accordance with the laws as well as the administrative regulations, decisions and orders of the State Council and within the limits of their power, formulate rules.

The people's congresses of larger cities and their respective standing committees may formulate local regulations based on the specific circumstances and actual requirements of such cities, which will become enforceable after being reported to and approved by the standing committees of the people's congresses of the relevant provinces or autonomous regions but such local regulations shall conform with the Constitution, laws, administrative regulations, and the relevant local regulations of the relevant provinces or autonomous regions. People's congresses of national autonomous areas have the power to enact autonomous regulations and separate regulations in light of the political, economic and cultural characteristics of the nationality (nationalities) in the areas concerned.

The people's governments of the provinces, autonomous regions, and municipalities directly under the central government and the comparatively larger cities may enact rules, in accordance with laws, administrative regulations and the local regulations of their respective provinces, autonomous regions or municipalities.

The Constitution has supreme legal authority and no laws, administrative regulations, local regulations, autonomous regulations or separate regulations may contravene the Constitution. The authority of laws is greater than that of administrative regulations, local regulations and rules. The authority of administrative regulations is greater than that of local regulations and rules. The authority of local regulations is greater than that of the rules of the local governments at or below the corresponding level. The authority of the rules enacted by the people's governments of the provinces or autonomous regions is greater than that of the rules enacted by the people's governments of the comparatively larger cities within the administrative areas of the provinces and the autonomous regions.

The NPC has the power to alter or annul any inappropriate laws enacted by its Standing Committee, and to annul any autonomous regulations or separate regulations which have been approved by its Standing Committee but which contravene the Constitution or the Legislation Law. The Standing Committee of the NPC has the power to annul any administrative regulations that contravene the Constitution and laws, to annul any local regulations that contravene the Constitution, laws or administrative regulations, and to annul any autonomous regulations or local regulations which have been approved by the standing committees of the people's congresses of the relevant provinces, autonomous regions or municipalities directly under the central government, but which contravene the Constitution and the Legislation Law. The State Council has the power to alter or annul any inappropriate ministerial rules and rules of local governments. The people's congresses of provinces, autonomous regions or municipalities directly under the central government have the power to alter or annul any inappropriate local regulations enacted or approved by their respective standing committees. The people's governments of provinces and autonomous regions have the power to alter or annul any inappropriate rules enacted by the people's governments at a lower level.

According to the Constitution and the Legislation Law, the power to interpret laws is vested in the Standing Committee of the NPC. According to the Decision of the Standing Committee of the NPC Regarding the Strengthening of Interpretation of Laws (《全國人民代表大會常務委員會關於加強法律解釋工作的決議》) passed on 10 June 1981, the Supreme People's

Court of the PRC (the “**Supreme People’s Court**”) has the power to give general interpretation on questions involving the specific application of laws and decrees in court trials. The State Council and its ministries and commissions are also vested with the power to give interpretation of the administrative regulations and department rules which they have promulgated. At the regional level, the power to give interpretations of the local laws and regulations as well as administrative rules is vested in the regional legislative and administrative organs which promulgate such laws, regulations and rules.

PRC JUDICIAL SYSTEM

Under the Constitution and the PRC Law on the Organisation of the People’s Courts (《中華人民共和國人民法院組織法》), the PRC judicial system is made up of the Supreme People’s Court, the local people’s courts, military courts and other special people’s courts.

The local people’s courts are comprised of the primary people’s courts, the intermediate people’s courts and the higher people’s courts. The primary people’s courts are organised into civil, criminal, administrative, supervision and enforcement divisions. The intermediate people’s courts are organised into divisions similar to those of the primary people’s courts, and are entitled to organise other courts as needed such as the intellectual property division.

The higher level people’s courts supervise the primary and intermediate people’s courts. The people’s procuratorates also have the right to exercise legal supervision over the civil proceedings of people’s courts of the same level and lower levels. The Supreme People’s Court is the highest judicial body in the PRC. It supervises the judicial administration of the people’s courts at all levels.

The people’s courts apply a two-tier appellate system. A party may appeal against a judgment or order of a local people’s court to the people’s court at the next higher level. Second judgments or orders given at the next higher level are final. First judgments or orders of the Supreme People’s Court are also final. However, if the Supreme People’s Court or a people’s court at a higher level finds an error in a judgment which has been given in any people’s court at a lower level, or the presiding judge of a people’s court finds an error in a judgment which has been given in the court over which he presides, the case may then be retried according to the judicial supervision procedures.

The PRC Civil Procedure Law (《中華人民共和國民事訴訟法》) (the “**Civil Procedure Law**”), which was adopted in 1991 and amended in 2007 and 2012, sets forth the criteria for instituting a civil action, the jurisdiction of the people’s courts, the procedures to be followed for conducting a civil action and the procedures for enforcement of a civil judgment or order. All parties to a civil action conducted within the PRC must comply with the Civil Procedure Law. Generally, a civil case is initially heard by a local court of the municipality or province in which the defendant resides. The parties to a contract may, by express agreement, select a judicial

court where civil actions may be brought, provided that the judicial court is either the plaintiff's or the defendant's domicile, the place of execution or implementation of the contract or the place of the object of the action, provided that the provisions of this law regarding the level of jurisdiction and exclusive jurisdiction shall not be violated.

A foreign national or enterprise generally has the same litigation rights and obligations as a citizen or legal person of the PRC. If a foreign country's judicial system limits the litigation rights of PRC citizens and enterprises, the PRC courts may apply the same limitations to the citizens and enterprises of that foreign country within the PRC. If any party to a civil action refuses to comply with a judgment or ruling made by a people's court or an award made by an arbitration panel in the PRC, the other party may apply to the people's court for the enforcement of the same. There are time limits of two years imposed on the right to apply for such enforcement. If a person fails to satisfy a judgment made by the court within the stipulated time, the court will, upon application by either party, enforce the judgment in accordance with the law.

A party seeking to enforce a judgment or ruling of a people's court against a party who is not personally or whose property is not within the PRC may apply to a foreign court with jurisdiction over the case for recognition and enforcement of the judgment or ruling. A foreign judgment or ruling may also be recognised and enforced by the people's court according to PRC enforcement procedures if the PRC has entered into or acceded to an international treaty with the relevant foreign country, which provides for such recognition and enforcement, or if the judgment or ruling satisfies the court's examination according to the principle of reciprocity, unless the people's court finds that the recognition or enforcement of such judgment or ruling will result in a violation of the basic legal principles of the PRC, its sovereignty or security or against social and public interest.

THE COMPANY LAW, SPECIAL REGULATIONS AND MANDATORY PROVISIONS

A joint stock limited company which is incorporated in the PRC and seeking a listing on the Hong Kong Stock Exchange is mainly subject to the following three laws and regulations in the PRC:

- Company Law which was promulgated by the Standing Committee of the NPC on 29 December 1993, came into effect on 1 July 1994, revised on 25 December 1999, 28 August 2004, 27 October 2005 and 28 December 2013 respectively and the latest revision of which was implemented on 1 March 2014;
- Special Regulations which were promulgated by the State Council on 4 August 1994 pursuant to Articles 85 and 155 of the Company Law in force at that time, and were applicable, to the overseas share subscription and listing of joint stock limited companies; and

- Mandatory Provisions which stated the mandatory provisions which must be incorporated into the articles of association of a joint stock limited company seeking an overseas listing. As such, the Mandatory Provisions are set out in the Articles of Association of the Company, the summary of which is set out in “Appendix IV — Summary of Articles of Association”.

Set out below is a summary of the major provisions of the Company Law, the Special Regulations and the Mandatory Provisions applicable to the Company.

General

A joint stock limited company refers to an enterprise legal person incorporated under the Company Law with its registered capital divided into shares of equal par value. The liability of its shareholders is limited to the amount of shares held by them and the company is liable to its creditors for an amount equal to the total value of its assets.

A SOE that is reorganised into a joint stock limited company shall comply with the conditions and requirements specified by laws and administrative regulations for the modification of its operation mechanisms, the disposal and valuation of the company’s assets and liabilities and the establishment of internal management organisations.

A joint stock limited company shall conduct its business in accordance with laws and administrative regulations. It may invest in other limited liability companies and joint stock limited companies and its liabilities with respect to such invested companies are limited to the amount invested. Unless otherwise provided by law, the joint stock limited company may not be a contributor that undertakes joint and several liabilities for the debts of the invested companies.

Incorporation

A joint stock limited company may be incorporated by promotion or public subscription.

A joint stock limited company may be incorporated by a minimum of two but not more than 200 promoters, and at least half of the promoters must have residence within the PRC. According to the Special Regulations, SOEs or enterprises with the majority of their assets owned by the PRC Government may be restructured into joint stock limited companies which may issue shares to overseas investors in accordance with the relevant regulations. These companies, if incorporated by promotion, may have less than five promoters and may issue new shares once incorporated.

According to the Securities Law of the PRC (《中華人民共和國證券法》) (the “**PRC Securities Law**”), the total share capital of a company seeking to list its shares on a stock exchange shall be no less than RMB30 million.

The promoters must convene an inaugural meeting within 30 days after the issued shares have been fully paid up, and must give notice to all subscribers or make an announcement of the date of the inaugural meeting 15 days before the meeting. The inaugural meeting may be convened only with the presence of promoters or subscribers representing at least half of the shares in the company. At the inaugural meeting, matters including the adoption of articles of association and the election of members of the board of directors and members of the board of supervisors of the company will be dealt with. All resolutions of the meeting require the approval of subscribers with more than half of the voting rights present at the meeting.

Within 30 days after the conclusion of the inaugural meeting, the board of directors must apply to the registration authority for registration of the establishment of the joint stock limited company. A company is formally established, and has the status of a legal person, after the business license has been issued by the relevant registration authority. Joint stock limited companies established by the subscription method shall file the approval on the offering of shares issued by the securities administration department of the State Council with the company registration authority for record.

A joint stock limited company's promoters shall be liable for: (i) the payment of all expenses and debts incurred in the incorporation process jointly and severally if the company cannot be incorporated; (ii) the refund of subscription monies to the subscribers, together with interest, at bank rates for a deposit of the same term jointly and severally if the company cannot be incorporated; and (iii) damages suffered by the company as a result of the default of the promoters in the course of incorporation of the company. According to the Interim Provisional Regulations on the Administration of Share Issuance and Trading (《股票發行與交易管理暫行條例》) promulgated by the State Council on 22 April 1993 (which is only applicable to the issuance and trading of shares in the PRC and their related activities), if a company is established by means of public subscription, the promoters of such company are required to sign on this prospectus to ensure that this prospectus does not contain any misrepresentation, serious misleading statements or material omissions, and assume joint and several responsibility for it.

Share Capital

The promoters of a company can make capital contributions in cash or in kind, which can be valued in currency and transferable according to law such as intellectual property rights or land use rights based on their appraised value.

If capital contribution is made other than in cash, valuation and verification of the property contributed must be carried out and converted into shares.

A company may issue registered or bearer share. However, shares issued to promoter(s) or legal person(s) shall be in the form of registered share and shall be registered under the name(s) of such promoter(s) or legal person(s) and shall not be registered under a different name or the name of a representative.

The Special Regulations and the Mandatory Provisions provide that shares issued to foreign investors and listed overseas shall be issued in registered form and shall be denominated in Renminbi and subscribed for in foreign currency.

Under the Special Regulations and the Mandatory Provisions, shares issued to foreign investors and investors from the territories of Hong Kong, the Macau and Taiwan and listed overseas are known as overseas listed foreign invested shares, and those shares issued to investors within the PRC other than the territories specified above are known as Domestic Shares.

A company may offer its shares to the public overseas with approval by the securities administration department of the State Council. Specific provisions shall be specifically formulated by the CSRC. Under the Special Regulations, upon approval of CSRC, a company may agree, in the underwriting agreement in respect of an issue of overseas listed foreign invested shares, to retain not more than 15% of the aggregate number of overseas listed foreign invested shares proposed to be issued after accounting for the number of underwritten shares.

The share offering price may be equal to or greater than nominal value, but shall not be less than nominal value.

The transfer of shares by shareholders should be conducted via the legally established stock exchange or in accordance with other methods as stipulated by the State Council. Transfer of registered shares by a shareholder must be made by means of an endorsement or by other means stipulated by laws or administrative regulations. Bearer shares are transferred by delivery of the share certificates to the transferee.

Shares held by a promoter of a company shall not be transferred within one year after the date of the company's incorporation. Shares issued by a company prior to the public offer of its shares shall not be transferred within one year from the date of listing of the shares of the company on a stock exchange. Directors, supervisors and senior management of a company shall not transfer over 25% of the shares held by each of them in the company each year during their term of office and shall not transfer any share of the company held by each of them within one year after the listing date. There is no restriction under the Company Law as to the percentage of shareholding a single shareholder may hold in a company.

Transfers of shares may not be entered in the register of shareholders within 20 days before the date of a shareholders' meeting or within five days before the record date set for the purpose of distribution of dividends.

Allotment and Issue of Shares

All issue of shares of a joint stock limited company shall be based on the principles of equality and fairness. The same class of shares must carry equal rights. Shares issued at the same time and within the same class must be issued on the same conditions and at the same price. It may issue shares at par value or at a premium, but it may not issue shares below the par value.

A company shall obtain the approval of the CSRC to offer its shares to the overseas public. Under the Special Regulations, shares issued to foreign investors by joint stock limited companies and listed overseas are known as “overseas listed and foreign invested shares”. Shares issued to investors within the PRC by joint stock limited companies, which also issues overseas listed and foreign shares, are known as “domestic shares”. Upon approval of the securities regulatory authority of the State Council, a company issuing overseas listed and foreign invested shares in total shares determined by the issuance programme may agree with underwriters in the underwriting agreement to retain not more than 15% of the aggregate number of overseas listed and foreign invested shares outside the underwritten amount. The issuance of the retained shares is deemed to be a part of this issuance.

Registered Shares

Under the Company Law, the shareholders may make capital contributions in cash, or alternatively may make capital contributions with such valuated non-monetary property as physical items, intellectual property rights, and land-use rights that may be valued in monetary term and may be transferred in accordance with the law. Pursuant to the Special Regulations, overseas listed and foreign invested shares issued shall be in registered form, denominated in Renminbi and subscribed for in a foreign currency. Domestic shares issued shall also be in registered form.

Under the Company Law, when the company issues shares in registered form, it shall maintain a register of shareholders, stating the following matters:

- the name and domicile of each shareholder;
- the number of shares held by each shareholder;
- the serial numbers of shares held by each shareholder; and
- the date on which each shareholder acquired the shares.

Increase of Share Capital

According to the Company Law, when the joint stock limited company issues new shares, resolutions shall be passed by a shareholders' general meeting, approving the class and number of the new shares, the issue price of the new shares, the commencement and end of the new share issuance and the class and amount of new shares to be issued to existing shareholders. When the company launches a public issuance of new shares with the approval of the securities regulatory authorities of the State Council, it shall publish a prospectus and financial and accounting reports, and prepare the share subscription form. After the new share issuance has been paid up, the change shall be registered with the company registration authorities and an announcement shall be made.

Reduction of Share Capital

A company may reduce its registered capital in accordance with the following procedures prescribed by the Company Law:

- it shall prepare a balance sheet and a property list;
- the reduction of registered capital shall be approved by a shareholders' general meeting;
- it shall inform its creditors of the reduction in capital within 10 days and publish an announcement of the reduction in the newspaper within 30 days after the resolution approving the reduction has been passed;
- creditors may within 30 days after receiving the notice, or within 45 days of the public announcement if no notice has been received, require the company to pay its debts or provide guarantees covering the debts;
- it shall apply to the relevant administration of industry and commerce for the registration of the reduction in registered capital.

Repurchase of Shares

According to the Company Law, a joint stock limited company may not purchase its shares other than for one of the following purposes: (i) to reduce its registered capital; (ii) to merge with another company that holds its shares; (iii) to grant its shares to its employees as incentives; and (iv) to purchase its shares from shareholders who are against the resolution regarding the merger or division with other companies at a shareholders' general meeting.

The purchase of shares on the grounds set out in (i) to (iii) above shall require approval by way of a resolution passed by the shareholders' general meeting. Following the purchase of shares in accordance with the foregoing, such shares shall be cancelled within 10 days from the date of purchase in the case of (i) above and transferred or cancelled within six months in

the case of (ii) or (iv) above. Shares acquired in accordance with (iii) above shall not exceed 5% of the total number of the company's issued shares. Such acquisition shall be financed by funds appropriated from the company's profit after taxation, and the shares so acquired shall be transferred to the company's employees within one year.

Transfer of Shares

Shares held by shareholders may be transferred in accordance with the relevant laws and regulations. Pursuant to the Company Law, transfer of shares by shareholders shall be carried out at a legally established securities exchange or in other ways stipulated by the State Council. No modifications of registration in the share register caused by transfer of registered shares shall be carried out within 20 days prior to the convening of shareholder's general meeting or five days prior to the base date for determination of dividend distributions. However, where there are separate provisions by law on alternation of registration in the share register of listed companies, those provisions shall prevail. Pursuant to the Mandatory Provisions, no modifications of registration in the share register caused by transfer of shares shall be carried out within 30 days prior to convening of shareholder's general meeting or five days prior to any base date for determination of dividend distributions.

Under the Company law, shares issued prior to the public issuance of shares shall not be transferred within one year from the date of the joint stock limited company's listing on a stock exchange. Directors, supervisors and the senior management shall declare to the company their shareholdings in the company and any changes of such shareholdings. They shall not transfer more than 25% of all the shares they hold in the company annually during their tenure. They shall not transfer the shares they hold within one year from the date on which the company's shares are listed and commenced trading on a stock exchange. nor within six months after their resignation from their positions with the company.

Shareholders

Under the Company Law and the Mandatory Provisions, the rights of holders of ordinary shares of a joint stock limited company include:

- the right to attend or appoint a proxy to attend shareholders' general meetings and to vote thereat;
- the right to transfer shares in accordance with laws, administrative regulations and provisions of the articles of association;
- the right to inspect the company's articles of association, share register, counterfoil of company debentures, minutes of shareholder's general meetings, resolutions of meetings of the board of directors, resolutions of meetings of the board of supervisors and financial and accounting reports and to make proposals or enquires on the company's operations;

- the right to bring an action in the people's court to rescind resolutions passed by shareholder's general meetings and board of directors where the articles of association is violated by the above resolutions;
- the right to receive dividends and other types of interest distributed in proportion to the number of shares held;
- in the event of the termination or liquidation of the company, the right to participate in the distribution of residual properties of the company in proportion to the number of shares held; and
- other rights granted by laws, administrative regulations, other regulatory documents and the company's articles of association.

The obligations of a shareholder include the obligation to abide by the company's articles of association, to pay the subscription moneys in respect of the shares subscribed for and in accordance with the form of making capital contributions, to be liable for the company's debts and liabilities to the extent of the amount of his or her subscribed shares and any other shareholders' obligation specified in the company's articles of association.

Shareholders' General Meetings

The shareholders' general meeting is the organ of authority of the company, which exercises its powers in accordance with the Company Law.

Under the Company Law, the shareholders' general meeting exercises the following principal powers:

- to decide on the company's operational policies and investment plans;
- to elect or remove the directors and supervisors (other than the supervisor representative of the employees of the company) and to decide on matters relating to the remuneration of directors and supervisors;
- to examine and approve reports of the board of directors;
- to examine and approve reports of the board of supervisors;
- to examine and approve the company's proposed annual financial budget and final accounts;
- to examine and approve the company's proposals for profit distribution plans and loss recovery plans;

- to decide on any increase or reduction of the company's registered capital;
- to decide on the issue of bonds by the company;
- to decide on issues such as merger, division, dissolution and liquidation of the company and other matters;
- to amend the company's articles of association; and
- other powers as provided for in the articles of association.

Shareholders' annual general meetings are required to be held once every year. Under the Company Law, an extraordinary shareholders' general meeting is required to be held within two months after the occurrence of any of the following:

- the number of directors is less than the number stipulated by the law or less than two thirds of the number specified in the articles of association;
- the aggregate losses of the company which are not recovered reach one-third of the company's total paid-in share capital;
- when shareholders alone or in aggregate holding 10% or more of the company's shares request the convening of an extraordinary general meeting;
- whenever the board of directors deems necessary;
- when the board of supervisors so requests; or
- other circumstances as provided for in the articles of associations.

Under the Company Law, shareholders' general meetings shall be convened by the board of directors, and presided over by the chairman of the board of directors. In the event that the chairman is incapable of performing or does not perform his duties, the meeting shall be presided over by the vice chairman. In the event that the vice chairman is incapable of performing or not performing his duties, a director nominated by more than half of directors shall preside over the meeting.

Where the board of directors is incapable of performing or not performing its duties of convening the shareholders' general meeting, the board of supervisors shall convene and preside over such meeting in a timely manner. In case the board of supervisors fails to convene and preside over such meeting, shareholders alone or in aggregate holding more than 10% of the company's shares for 90 days consecutively may unilaterally convene and preside over such meeting.

Under the Company Law, notice of shareholders' general meeting shall state the time and venue of and matters to be considered at the meeting and shall be given to all shareholders 20 days before the meeting. Notice of extraordinary shareholder's general meetings shall be given to all shareholders 15 days prior to the meeting. Under the Special Regulations and the Mandatory Provisions, such notice shall be delivered to all the registered shareholders 45 days in advance to the meeting, and the matters to be considered and time and venue of the meeting shall be specified. The written reply of shareholders planning to attend the meeting shall be delivered to the company 20 days in advance of the meeting.

There is no specific provision in the Company Law regarding the number of shareholders constituting a quorum in a shareholders' meeting. Pursuant to the Special Regulations and the Mandatory Provisions, shareholder's general meeting may be convened where the number of voting shares held by the shareholders present at the meeting reaches one half or more of the company's total voting shares. If this is not attained, the company shall within five days notify the shareholders again of the matters to be considered and time and venue of the meeting to shareholders in the form of public announcement. The company may convene the shareholders' general meeting after such public announcement. Pursuant to the Mandatory Provisions, modification or abrogation of rights conferred to any class of shareholders shall be passed both by special resolution of shareholders' general meeting and by class meeting convened respectively by shareholders of the affected class.

Pursuant to the Special Regulations, where the company convenes annual shareholder's general meeting, shareholders holding more than 5% of voting shares have a right to submit to the company new proposals in writing, in which the matters falling within the scope of shareholder's general meeting shall be placed in the agenda of the meeting.

Under the Company Law, shareholders present at shareholders' general meeting have one vote for each share they hold, save that shares held by the company are not entitled to any voting rights.

Pursuant to the provisions of the articles of association or a resolution of the shareholders' general meeting, the accumulative voting system may be adopted for the election of directors and supervisors at the shareholders' general meeting. Under the accumulative voting system, each share shall be entitled to vote equivalent to the number of directors or supervisors to be elected at the shareholders' general meeting and shareholders may consolidate their voting rights when casting a vote.

Pursuant to the Company Law and the Mandatory Provisions, resolutions of the shareholders' general meeting shall be adopted by more than half of the voting rights held by the shareholders present at the meeting. However, resolutions of the shareholders' general meeting regarding the following matters shall be adopted by more than two-thirds of the voting rights held by the shareholders present at the meeting: (i) amendments to the articles of association; (ii) the increase or decrease of registered capital; (iii) the issue of any types of shares, warrants or other similar securities; (iv) the issue of debentures; (v) the merger,

division, dissolution, liquidation or change in the form of the company; (vi) other matters considered by the shareholders' general meeting, by way of an ordinary resolution, to be of a nature which may have a material impact on the company and should be adopted by a special resolution.

Under the Company Law, meeting minutes shall be prepared in respect of decisions on matters discussed at the shareholders' general meeting. The chairman of the meeting and directors attending the meeting shall sign to endorse such minutes. The minutes shall be kept together with the shareholders' attendance register and the proxy forms.

Board

Under the Company Law, a joint stock limited company shall have a board of directors, which shall consist of 5 to 19 members. Members of the board of directors may include representatives of the employees of the company, who shall be democratically elected by the company's staff at the staff representative assembly, general staff meeting or otherwise. The term of a director shall be stipulated in the articles of association, but no term of office shall last for more than three years. Directors may serve consecutive terms if re-elected. A director shall continue to perform his duties in accordance with the laws, administrative regulations and articles of association until a duly re-elected director takes office, if re-election is not conducted in a timely manner upon the expiry of his term of office, or if the resignation of directors results in the number of directors being less than the quorum.

Under the Company Law, the board of directors mainly exercises the following powers:

- to convene the shareholders' general meetings and report on its work to the shareholders' general meetings;
- to implement the resolutions passed in shareholders' general meetings;
- to decide on the company's business plans and investment proposals;
- to formulate the company's proposed annual financial budget and final accounts;
- to formulate the company's profit distribution proposals and loss recovery proposals;
- to formulate proposals for the increase or reduction of the company's registered capital and the issuance of corporate bonds;
- to prepare plans for the merger, division, dissolution and change in the form of the company;
- to formulate the company's basic management system; and
- to exercise any other power under the articles of association.

Board Meetings

Under the Company Law, meetings of the board of directors of a joint stock limited company shall be convened at least twice a year. Notice of meeting shall be given to all directors and supervisors 10 days before the meeting. Interim board meetings may be proposed to be convened by shareholders representing more than 10% of voting rights, more than one-third of the directors or the board of supervisors. The chairman shall convene and preside over such meeting within 10 days after receiving such proposal. Meetings of the board of directors shall be held only if half or more of the directors are present. Resolutions of the board of directors shall be passed by more than half of all directors. Each director shall have one vote for resolutions to be approved by the board of directors. Directors shall attend board meetings in person. If a director is unable to attend a board meeting, he may appoint another director by a written power of attorney specifying the scope of the authorisation to attend the meeting on his behalf.

If a resolution of the board of directors violates the laws, administrative regulations or the articles of association, and as a result of which the company sustains serious losses, the directors participating in the resolution are liable to compensate the company. However, if it can be proved that a director expressly objected to the resolution when the resolution was voted on, and that such objection was recorded in the minutes of the meeting, such director may be released from that liability.

Chairman of the Board

Under the Company Law, the board of directors shall appoint a chairman and may appoint a vice chairman. The chairman and the vice chairman are elected with approval of more than half of all the directors. The chairman shall convene and preside over board meetings and examine the implementation of board resolutions. The vice chairman shall assist the work of the chairman. In the event that the chairman is incapable of performing or not performing his duties, the duties shall be performed by the vice chairman. In the event that the vice chairman is incapable of performing or not performing his duties, a director nominated by more than half of the directors shall perform his duties.

Qualification of Directors

The Company Law provides that the following persons may not serve as a director:

- a person who is unable or has limited ability to undertake any civil liabilities;
- a person who has been convicted of an offence of bribery, corruption, embezzlement or misappropriation of property, or the destruction of socialist market economy order; or who has been deprived of his political rights due to his crimes, in each case where less than five years have elapsed since the date of completion of the sentence;

- a person who has been a former director, factory manager or manager of a company or an enterprise that has entered into insolvent liquidation and who was personally liable for the insolvency of such company or enterprise, where less than three years have elapsed since the date of the completion of the bankruptcy and liquidation of the company or enterprise;
- a person who has been a legal representative of a company or an enterprise that has had its business license revoked due to violations of the law and has been ordered to close down by law and the person was personally responsible, where less than three years have elapsed since the date of such revocation; or
- a person who is liable for a relatively large amount of debts that are overdue.

Other circumstances under which a person is disqualified from acting as a director are set out in the Mandatory Provisions.

Board of Supervisors

A joint stock limited company shall have a board of supervisors composed of not less than three members. The board of supervisors is made up of representatives of the shareholders and an appropriate proportion of representatives of the employees of the company. The actual proportion shall be stipulated in the articles of association, provided that the proportion of representatives of the employees shall not be less than one third of the supervisors. Representatives of the employees of the company in the board of supervisors shall be democratically elected by the employees at the employees' representative assembly, employees' general meeting or otherwise.

The directors and senior management may not act concurrently as supervisors.

The board of supervisors shall appoint a chairman and may appoint a vice chairman. The chairman and the vice chairman of the board of supervisors are elected with approval of more than half of all the supervisors. The chairman of the board of supervisors shall convene and preside over the meetings of the board of supervisors. In the event that the chairman of the board of supervisors is incapable of performing or not performing his duties, the vice chairman of the board of supervisors shall convene and preside over the meetings of the board of supervisors. In the event that the vice chairman of the board of supervisors is incapable of performing or not performing his duties, a supervisor nominated by more than half of the supervisors shall convene and preside over the meetings of the board of supervisors.

Each term of office of a supervisor is three years and he or she may serve consecutive terms if re-elected. A supervisor shall continue to perform his duties in accordance with the laws, administrative regulations and articles of association until a duly re-elected supervisor takes office, if re-election is not conducted in a timely manner upon the expiry of his term of office, or if the resignation of supervisors results in the number of supervisors being less than the quorum.

The board of supervisors exercises the following powers:

- to review the company's financial position;
- to supervise the directors and senior management in their performance of their duties and to propose the removal of directors and senior management who have violated laws, regulations, the articles of association or the resolutions of shareholders' meeting;
- when the acts of directors and senior management are harmful to the company's interests, to require correction of those acts;
- to propose the convening of extraordinary shareholders' general meetings and to convene and preside over shareholders' general meetings when the board of directors fails to perform the duty of convening and presiding over shareholders' general meeting under this law;
- to initiate proposals for resolutions to shareholders' general meeting;
- to initiate proceedings against directors and senior management;
- other powers specified in the articles of association; and
- Supervisors may attend board meetings and make enquiries or proposals in respect of board resolutions. The board of supervisors may initiate investigations into any irregularities identified in the operation of the company and, where necessary, may engage an accounting firm to assist their work at the company's expense.

Manager and Senior Management

Under the Company Law, a company shall have a manager who shall be appointed or removed by the board of directors. The manager shall report to the board of directors and may exercise the following powers:

- to supervise the business and administration of the company and arrange for the implementation of resolutions of the board of directors;
- to arrange for the implementation of the company's annual business plans and investment proposals;
- to formulate the general administration system of the company;
- to formulate the company's detailed rules;

- to recommend the appointment and dismissal of deputy managers and person in charge of finance;
- to appoint or dismiss other administration officers (other than those required to be appointed or dismissed by the board of directors); and
- to other powers conferred by the board of directors or the articles of association.

The manager shall comply with other provisions of the articles of association concerning his/her powers. The manager shall attend board meetings.

According to the Company Law, senior management shall mean the manager, deputy manager(s), person-in-charge of finance, board secretary (in case of a listed company) of a company and other personnel as stipulated in the articles of association.

Duties of Directors, Supervisors and Senior Management

Directors, supervisors and senior management of the company are required under the Company Law to comply with the relevant laws, regulations and the articles of association, and have fiduciary and diligent duties to the company. Directors, supervisors and senior management are prohibited from abusing their powers to accept bribes or other unlawful income and from misappropriating of the company's properties. Directors and senior management are prohibited from:

- misappropriation of the company's capital;
- depositing the company's capital into accounts under his own name or the name of other individuals;
- loaning company funds to others or providing guarantees in favour of others supported by the company's assets in violation of the articles of association or without prior approval of the shareholders' general meeting or board of directors;
- entering into contracts or deals with the company in violation of the articles of association or without prior approval of the shareholders' general meeting;
- using their position and powers to procure business opportunities for themselves or others that should have otherwise been available to the company or operating for their own benefits or managing on behalf of others businesses similar to that of the company without prior approval of the shareholders' general meeting;
- accept and possess commissions paid by a third party for transactions conducted with the company;

- unauthorised divulgence of confidential business information of the company; or
- other acts in violation of their duty of loyalty to the company.

A director, supervisor or senior management who contravenes any law, regulation or the company's articles of association in the performance of his duties resulting in any loss to the company shall be personally liable to the company.

Finance and Accounting

Under the Company Law, a company shall establish financial and accounting systems according to laws, administrative regulations and the regulations of the financial department of the State Council and shall at the end of each financial year prepare a financial and accounting report which shall be audited by an accounting firm as required by law. The company's financial and accounting report shall be prepared in accordance with provisions of the laws, administrative regulations and the regulations of the financial department of the State Council.

Pursuant to the Company Law, the company shall deliver its financial and accounting reports to all shareholders within the time limit stipulated in the articles of association and make its financial and accounting reports available at the company for inspection by the shareholders at least 20 days before the convening of an annual general meeting of shareholders. It must also publish its financial and accounting reports.

When distributing each year's after-tax profits, it shall set aside 10% of its after-tax profits into a statutory reserve fund (except where the fund has reached 50% of its registered capital).

If its statutory reserve fund is not sufficient to make up losses of the previous year, profits of the current year shall be applied to make up losses before allocation is made to the statutory reserve fund pursuant to the above provisions.

After allocation of the statutory reserve fund from after-tax profits, it may, upon a resolution passed at the shareholders' general meeting, allocate discretionary reserve fund from after-tax profits.

The remaining after-tax profits after making up losses and allocation of reserve fund shall be distributed in proportion to the number of shares held by the shareholders, unless otherwise stipulated in the articles of association.

Shares held by the company shall not be entitled to any distribution of profit.

The premium received through issuance of shares at prices above par value and other incomes required by the financial department of the State Council to be allocated to the capital reserve fund shall be allocated to the company's capital reserve fund.

The company's reserve fund shall be applied to make up losses of the company, expand its business operations or be converted to increase the registered capital of the company. However, the capital reserve fund may not be applied to make up the company's losses. Upon the conversion of statutory reserve fund into capital, the balance of the statutory reserve fund shall not be less than 25% of the registered capital of the company before such conversion.

The company shall have no other accounting books except the statutory accounting books. Its assets shall not be deposited in any accounts opened in the name of any individual.

Appointment and Retirement of Accounting Firms

Pursuant to the Company Law, the appointment or dismissal of accounting firms responsible for the auditing of the company shall be determined by shareholders' general meeting or board of directors in accordance with provisions of articles of association. The accounting firm should be allowed to make representations when the shareholders' general meeting or board of directors conducts a vote on the dismissal of the accounting firm. The company should provide true and complete accounting evidences, books, financial and accounting reports and other accounting data to the accounting firm it employs without any refusal, withholding and misrepresentation.

The Special Regulations provide that a company shall employ an independent accounting firm complying with the relevant regulations of the State to audit its annual report and review and check other financial reports of the company. The accounting firm's term of office shall commence from their appointment at a shareholders' annual general meeting to the end of the next shareholders' annual general meeting.

Distribution of Profits

According to the Company Law, a company shall not distribute profits before losses are covered and the statutory common reserve is drawn. Under the Mandatory Provisions, a company shall appoint receiving agents on behalf of holders of the overseas listed and foreign invested shares to receive on behalf of such shareholders dividends and other distributions payable in respect of their overseas listed and foreign invested shares.

Amendments to Articles of Association

Any amendments to the company's articles of association must be made in accordance with the procedures set out in the company's articles of association. Any amendment of provisions incorporated in the articles of association in connection with the Mandatory Provisions will only be effective after approval by the company's approval department authorised by the State Council and the CSRC. In relation to matters involving the company's registration, its registration with the authority must also be changed.

Dissolution and Liquidation

According to the Company Law, a company shall be dissolved by reason of the following: (i) the term of its operations set down in the articles of association has expired or other events of dissolution specified in the articles of association have occurred; (ii) the shareholders' general meeting have resolved to dissolve the company; (iii) the company is dissolved by reason of merger or division; (iv) the business license is revoked; the company is ordered to close down or be dissolved; or (v) the company is dissolved by the people's court in response to the request of shareholders holding shares that represent more than 10% of the voting rights of all its shareholders, on the grounds that the company suffers significant hardship in its operation and management that cannot be resolved through other means, and the ongoing existence of the company would bring significant losses for shareholders.

In the event of (i) above, it may carry on its existence by amending its articles of association. The amendment of the articles of association in accordance with provisions set out above shall require approval of more than two thirds of voting rights of shareholders attending a shareholders' general meeting.

Where the company is dissolved in the circumstances described in subparagraphs (i), (ii), (iv), or (v) above, a liquidation group shall be established and the liquidation process shall commence within 15 days after the occurrence of an event of dissolution.

The members of the company's liquidation group shall be composed of its directors or the personnel appointed by the shareholders' general meeting. If a liquidation group is not established within the stipulated period, creditors may apply to the people's court and request the court to appoint relevant personnel to form the liquidation group. The people's court should accept such application and form a liquidation group to conduct liquidation in a timely manner.

The liquidation group shall exercise the following powers during the liquidation period:

- to handle the company's assets and to prepare a balance sheet and an inventory of the assets;
- to notify creditors through notice or public announcement;
- to deal with the company's outstanding businesses related to liquidation;
- to pay any tax overdue as well as tax amounts arising from the process of liquidation;
- to claim credits and pay off debts;
- to handle the company's remaining assets after its debts have been paid off; and
- to represent the company in civil lawsuits.

The liquidation group shall notify the company's creditors within 10 days after its establishment and issue public notices in newspapers within 60 days. A creditor shall lodge his claim with the liquidation group within 30 days after receiving notification, or within 45 days of the public notice if he did not receive any notification. A creditor shall state all matters relevant to his creditor rights in making his claim and furnish evidence. The liquidation group shall register such creditor rights. The liquidation group shall not make any debt settlement to creditors during the period of claim.

Upon liquidation of properties and the preparation of the balance sheet and inventory of assets, the liquidation group shall draw up a liquidation plan to be submitted to the shareholders' general meeting or people's court for confirmation.

The company's remaining assets after payment of liquidation expenses, wages, social insurance expenses and statutory compensation, outstanding taxes and debts shall be distributed to shareholders according to their shareholding proportion. It shall continue to exist during the liquidation period, although it can only engage in any operating activities that are related to the liquidation. The company's properties shall not be distributed to the shareholders before repayments are made in accordance to the foregoing provisions.

Upon liquidation of the company's properties and the preparation of the balance sheet and inventory of assets, if the liquidation group becomes aware that the company does not have sufficient assets to meet its liabilities, it must apply to the people's court for a declaration for bankruptcy.

Following such declaration, the liquidation group shall hand over all matters relating to the liquidation to the people's court.

Upon completion of the liquidation, the liquidation group shall submit a liquidation report to the shareholders' general meeting or the people's court for verification. Thereafter, the report shall be submitted to the registration authority of the company in order to cancel the company's registration, and a public notice of its termination shall be issued. Members of the liquidation group are required to discharge their duties honestly and in compliance with the relevant laws. Members of the liquidation group shall be prohibited from abusing their powers to accept bribes or other unlawful income and from misappropriating the company's properties.

A member of the liquidation group is liable to indemnify the company and its creditors in respect of any loss arising from his intentional or gross negligence.

Overseas Listing

According to the Special Regulations, a company shall obtain the approval of the CSRC to list its shares overseas. A company's plan to issue overseas listed and foreign invested shares and domestic shares which has been approved by the CSRC may be implemented by the board of directors of the company by way of separate issue within 15 months after approval is obtained from the CSRC.

Loss of Share Certificates

If a registered share certificate is lost, stolen or destroyed, the relevant shareholder may apply, in accordance with the relevant provisions set out in the Civil Procedure Law, to a people's court to declare such certificate invalid. After the people's court declares the invalidity of such certificate, the shareholder may apply to the company for a replacement share certificate. A separate procedure regarding the loss of overseas listed and foreign invested share certificates is provided for in the Mandatory Provisions.

Suspension and Termination of Listing

The Company Law has deleted provisions governing suspension and termination of listing. The PRC Securities Law has been amended as follows:

The trading of shares of a company on a stock exchange may be suspended if so decided by the stock exchange under one of the following circumstances:

- (i) the registered capital or shareholding distribution no longer complies with the necessary requirements for a listed company;
- (ii) the company failed to make public its financial position in accordance with the requirements or there is false information in the company's financial report with the possibility of misleading investors;
- (iii) the company has committed a major breach of the law;
- (iv) the company has incurred losses for three consecutive years; or
- (v) other circumstances as required by the listing rules of the relevant stock exchange(s).

Under the PRC Securities Law, in the event that the conditions for listing are not satisfied within the period stipulated by the relevant stock exchange in the case described in (i) above, or the company has refused to rectify the situation in the case described in (ii) above, or the company fails to become profitable in the next subsequent year in the case described in (iv) above, the relevant stock exchange shall have the right to terminate the listing of the shares of the company.

Merger and Demerger

Companies may merge through merger by absorption or through the establishment of a newly merged entity. If it merges by absorption, the company which is absorbed shall be dissolved. If it merges by forming a new corporation, both companies will be dissolved.

SECURITIES LAW AND REGULATIONS

The PRC has promulgated a number of regulations that relate to the issue and trading of shares and disclosure of information. In October 1992, the State Council established the Securities Committee and the CSRC. The Securities Committee is responsible for coordinating the drafting of securities regulations, formulating securities-related policies, planning the development of securities markets, directing, coordinating and supervising all securities-related institutions in the PRC and administering the CSRC. The CSRC is the regulatory arm of the Securities Committee and is responsible for the drafting of regulatory provisions of securities markets, supervising securities companies, regulating public offers of securities by PRC companies in the PRC or overseas, regulating the trading of securities, compiling securities related statistics and undertaking relevant research and analysis. In April 1998, the State Council consolidated the two departments and reformed the CSRC.

The Interim Provisional Regulations on the Administration of Share Issuance and Trading (《股票發行與交易管理暫行條例》) deals with the application and approval procedures for public offerings of equity securities, trading in equity securities, the acquisition of listed companies, deposit, clearing and transfer of listed equity securities, the disclosure of information with respect to a listed company, investigation, penalties and dispute settlement.

On 25 December 1995, the State Council promulgated and implemented the Regulations of the State Council Concerning Domestic Listed Foreign Shares of Joint Stock Limited Companies (《國務院關於股份有限公司境內上市外資股的規定》). These regulations deal mainly with the issue, subscription, trading and declaration of dividends and other distributions of domestic listed and foreign invested shares and disclosure of information of joint stock limited companies having domestic listed and foreign invested shares.

The PRC Securities Law took effect on 1 July 1999 and was revised on 28 August 2004, 27 October 2005, 29 June 2013 and 31 August 2014, respectively. This is the first national securities law in the PRC, which is divided into 12 chapters and 240 articles regulating, among other things, the issue and trading of securities, takeovers by listed companies, securities exchanges, securities companies and the duties and responsibilities of the State Council's securities regulatory authorities. The PRC Securities Law comprehensively regulates activities in the PRC securities market. Article 238 of the PRC Securities Law provides that domestic enterprises shall obtain prior approval from the State Council's regulatory authorities to list its shares outside the PRC. Currently, the issue and trading of foreign issued shares (including H shares) are mainly governed by the rules and regulations promulgated by the State Council and the CSRC.

ARBITRATION AND ENFORCEMENT OF ARBITRAL AWARDS

The Arbitration Law of the PRC (《中華人民共和國仲裁法》) (the “**Arbitration Law**”) was passed by the Standing Committee of the NPC on 31 August 1994, became effective on 1 September 1995 and was amended on 27 August 2009. Under the Arbitration Law, an arbitration committee may, before the promulgation by the PRC Arbitration Association of arbitration regulations, formulate interim arbitration rules in accordance with the Arbitration Law and the Civil Procedure Law. Where the parties have by agreement provided arbitration as the method for dispute resolution, the people’s court will refuse to handle the case except when the arbitration agreement is declared invalid.

The Mandatory Provisions require an arbitration clause to be included in the articles of association of an issuer. Matters in arbitration include any disputes or claims in relation to the issuer’s affairs or as a result of any rights or obligations arising under its articles of association, the Company Law or other relevant laws and administrative regulations.

Where a dispute or claim of rights referred to in the preceding paragraph is referred to arbitration, the entire claim or dispute must be referred to arbitration, and all persons who have a cause of action based on the same facts giving rise to the dispute or claim or whose participation is necessary for the resolution of such dispute or claim, must comply with the arbitration. Disputes in respect of the definition of shareholder and disputes in relation to the issuer’s register of shareholders need not be resolved by arbitration.

A claimant may elect for arbitration to be carried out at either the China International Economic and Trade Arbitration Commission (中國國際經濟貿易仲裁委員會) (“**CIETAC**”) in accordance with its rules or the Hong Kong International Arbitration Centre (“**HKIAC**”) in accordance with its Securities Arbitration Rules (the “**Securities Arbitration Rules**”). Once a claimant refers a dispute or claim to arbitration, the other party shall submit to the arbitral body elected by the claimant. If the claimant elects for arbitration to be carried out at the HKIAC, any party to the dispute or claim may apply for a hearing to take place in Shenzhen in accordance with the Securities Arbitration Rules. In accordance with the Arbitration Regulations of CIETAC (《中國國際經濟貿易仲裁委員會仲裁規則》) which was amended on 4 November 2014 and will be implemented on 1 January 2015, CIETAC shall deal with economic and trading disputes over contractual or non-contractual transactions, including disputes involving Hong Kong based on the agreement of the parties. The arbitration commission is established in Beijing and its branches and centres have been set up in Shenzhen, Shanghai, Tianjin and Chongqing.

Under the Arbitration Law and the Civil Procedure Law, an arbitral award is final and binding on the parties. If a party fails to comply with an award, the other party to the award may apply to the people’s court for enforcement. A people’s court may refuse to enforce an arbitral award made by an arbitration commission if there is any irregularity on the procedures or composition of arbitrators specified by law or the award exceeds the scope of the arbitration agreement or is outside the jurisdiction of the arbitration commission.

A party seeking to enforce an arbitral award of PRC arbitration panel against a party who, or whose property, is not within the PRC, may apply to a foreign court with jurisdiction over the case for enforcement. Similarly, an arbitral award made by a foreign arbitration body may be recognised and enforced by the PRC courts in accordance with the principles of reciprocity or any international treaty concluded or acceded to by the PRC. The PRC acceded to the Convention on the Recognition and Enforcement of Foreign Arbitral Awards (the “**New York Convention**”) adopted on 10 June 1958 pursuant to a resolution of the Standing Committee of the NPC passed on 2 December 1986. The New York Convention provides that all arbitral awards made in a state which is a party to the New York Convention shall be recognised and enforced by all other parties to the New York Convention, subject to their right to refuse enforcement under certain circumstances, including where the enforcement of the arbitral award is against the public policy of the state to which the application for enforcement is made. It was declared by the Standing Committee of the NPC simultaneously with the accession of the PRC that (i) the PRC will only recognise and enforce foreign arbitral awards on the principle of reciprocity and (ii) the PRC will only apply the New York Convention in disputes considered under PRC laws to arise from contractual and non-contractual mercantile legal relations.

An arrangement was reached between Hong Kong and the Supreme People’s Court for the mutual enforcement of arbitral awards. On 18 June 1999, the Supreme People’s Court adopted the Arrangement on Mutual Enforcement of Arbitral Awards between Mainland and Hong Kong (《關於內地與香港特別行政區相互執行仲裁裁決的安排》), which became effective on 1 February 2000. In accordance with this arrangement, awards made by PRC arbitral authorities under the Arbitration Law can be enforced in Hong Kong, and Hong Kong arbitration awards are also enforceable in the PRC.

SUMMARY OF MATERIAL DIFFERENCES BETWEEN HONG KONG AND PRC COMPANY LAW

The Hong Kong law applicable to a company incorporated in Hong Kong is based on the Companies (WUMP) Ordinance and the Companies Ordinance and is supplemented by common law and the rules of equity that are applicable to Hong Kong. As a joint stock limited company established in the PRC that is seeking a listing of shares on the Hong Kong Stock Exchange, we are governed by the Company Law and all other rules and regulations promulgated pursuant to the Company Law.

Set out below is a summary of certain material differences between Hong Kong company law applicable to a company incorporated in Hong Kong and the Company Law applicable to a joint stock limited company incorporated and existing under the Company Law. This summary is, however, not intended to be an exhaustive comparison.

Corporate Existence

Under Hong Kong company law, a company with share capital, is incorporated by the Registrar of Companies in Hong Kong which issues a certificate of incorporation to the Company upon its incorporation and the company will acquire an independent corporate existence. A company may be incorporated as a public company or a private company. Pursuant to the Companies Ordinance, the articles of association of a private company incorporated in Hong Kong shall contain certain preemptive provisions. A public company's articles of association do not contain such pre-emptive provisions.

Under the Company Law, a joint stock limited company may be incorporated by promotion or public subscription.

Hong Kong law does not prescribe any minimum capital requirement for a Hong Kong company.

Share Capital

The Hong Kong company law does not provide for authorised share capital. The share capital of a Hong Kong company would be its issued share capital. The full proceeds of a share issue will be credited to share capital and becomes a company's share capital. The directors of a Hong Kong company may, with the prior approval of the shareholders if required, issue new shares of the company. The Company Law does not provide for authorised share capital, either. Our registered capital is the amount of our issued share capital. Any increase in our registered capital must be approved by our shareholders' general meeting and the relevant PRC governmental and regulatory authorities.

Under the Securities Law, a company which is authorised by the relevant securities regulatory authority to list its shares on a stock exchange must have a total share capital of not less than RMB30 million. Hong Kong law does not prescribe any minimum capital requirements for companies incorporated in Hong Kong.

Under the Company Law, the shares may be subscribed for in the form of money or non-monetary assets (other than assets not entitled to be used as capital contributions under relevant laws and administrative regulations). For non-monetary assets to be used as capital contributions, appraisals and verification must be carried out to ensure no overvaluation or undervaluation of the assets. There is no such restriction on a Hong Kong company under Hong Kong Law.

Restrictions on Shareholding and Transfer of Shares

Under PRC law, our Domestic Shares, which are denominated and subscribed for in Renminbi, may only be subscribed for or traded by the State, PRC legal persons, natural persons, qualified foreign institutional investors, or eligible foreign strategic investors.

Overseas listed shares, which are denominated in Renminbi and subscribed for in a currency other than Renminbi, may only be subscribed for, and traded by, investors from Hong Kong, Macau and Taiwan or any country and territory outside the PRC, or qualified domestic institutional investors.

Under the Company Law, a promoter of a joint stock limited company is not allowed to transfer the shares it holds for a period of one year after the date of establishment of the company. Shares in issue prior to our public offering cannot be transferred within one year from the listing date of the shares on a stock exchange. Shares in a joint stock limited liability company held by its directors, supervisors and managers and transferred each year during their term of office shall not exceed 25% of the total shares they held in the company, and the shares they held in the company cannot be transferred within one year from the listing date of the shares, and also cannot be transferred within half a year after the said personnel has left office. The articles of association may set other restrictive requirements on the transfer of the company's shares held by its directors, supervisors and officers. There are no such restrictions on shareholdings and transfers of shares under Hong Kong law apart from the six-month lockup on the company's issue of shares and the 12-month lockup on controlling shareholders' disposal of shares, as illustrated by the undertakings given by the Company and our controlling shareholder to the Hong Kong Stock Exchange.

Financial Assistance for Acquisition of Shares

The Company Law does not prohibit or restrict a joint stock limited company or its subsidiaries from providing financial assistance for the purpose of an acquisition of its own or its holding company's shares. However, the Mandatory Provisions contain certain restrictions on a company and its subsidiaries on providing such financial assistance similar to those under the Hong Kong company law.

Variation of Class Rights

The Company Law has no special provision relating to variation of class rights. However, the Company Law states that the State Council can promulgate regulations relating to other kinds of shares. The Mandatory Provisions contain elaborate provisions relating to the circumstances which are deemed to be variations of class rights and the approval procedures required to be followed in respect thereof. These provisions have been incorporated in the Articles of Association, which are summarised in "Appendix IV — Summary of Articles of Association".

Under the Companies Ordinance, no rights attached to any class of shares can be varied except

- (i) If there are provisions in the articles of association relating to the variation of those rights, then in accordance with those provisions;

- (ii) If there are not relevant provisions in the articles of associations, then (1) with the consent in writing of at least three fourth of the total voting rights of holders of the shares in the class in question, or; (2) with the approval of a special resolution of the holders of the relevant class at a separate meeting.

Directors, Senior Management and Supervisors

The Company Law, unlike Hong Kong company law, does not contain any requirements relating to the declaration of directors' interests in material contracts, restrictions on directors' authority in making major dispositions, restrictions on companies providing certain benefits to directors and guarantees in respects of directors' liability and prohibitions against compensation for loss of office without shareholders' approval. The Mandatory Provisions, however, contain certain restrictions on major disposals and specify the circumstances under which a director may receive compensation for loss of office.

Board of Supervisors

Under the Company Law, a joint stock limited company's directors and managers are subject to the supervision of a supervisors committee. There is no mandatory requirement for the establishment of a board of supervisors for a company incorporated in Hong Kong. The Mandatory Provisions provide that each supervisor owes a duty, in the exercise of his powers, to act in good faith and honestly in what he considers to be in the best interests of the Company and to exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances.

Derivative Action by Minority Shareholders

Hong Kong law permits minority shareholders to initiate a derivative action on behalf of all shareholders against directors who have committed a breach of their fiduciary duties to the company if the directors control a majority of votes at a general meeting, thereby effectively preventing a company from suing the directors in breach of their duties in its own name. The Company Law provides shareholders of a joint stock limited company with the right so that in the event where the directors and senior management violate their fiduciary obligations to a company, the shareholders individually or jointly holding over 1% of the shares in the company for more than 180 consecutive days may request in writing the board of supervisors to initiate proceedings in the people's court. In the event that the board of supervisors violates their fiduciary obligations to a company, the above said shareholders may send written request to the board of directors to initiate proceedings in the people's court. Upon receipt of such written request from the shareholders, if the board of supervisors or the board of directors refuses to initiate such proceedings, or has not initiated proceedings within 30 days upon receipt of the request, or if under urgent situations, failure of initiating immediate proceeding may cause irremediable damages to the company, the above said shareholders shall, for the benefit of the company's interests, have the right to initiate proceedings directly to the court in their own name.

The Mandatory Provisions provide further remedies against the directors, supervisors and senior management who breach their duties to the company. In addition, as a condition to the listing of shares on the Hong Kong Stock Exchange, each director and supervisor of a joint stock limited company is required to give an undertaking in favour of the company acting as agent for the shareholders. This allows minority shareholders to take action against directors and supervisors in default.

Protection of Minorities

Under Hong Kong law, the company may be wound up by the court if the court considers that it is just and equitable to do so, in addition, a shareholder who complains that the affairs of a company incorporated in Hong Kong are conducted in a manner unfairly prejudicial to his interests may petition to the court to make an appropriate order regulating the affairs of the company. Furthermore, under certain circumstances,, the Financial Secretary of Hong Kong may appoint inspectors who are given extensive statutory powers to investigate the affairs of a company incorporated in Hong Kong. The PRC law does not contain similar safeguards. The

Mandatory Provisions, however, contain provisions that a controlling shareholder may not exercise its voting rights in a manner prejudicial to the interests of the shareholders generally or of a proportion of the shareholders of a company to relieve a director or supervisor of his duty to act honestly in the best interests of the company or to approve the expropriation by a director or supervisor of the company's assets or the individual rights of other shareholders.

Notice of Shareholders' Meetings

Under the Company Law, notice of a shareholder's annual general meeting must be given not less than 20 days before the meeting. Under the Special Regulations and the Mandatory Provisions, at least 45 days' written notice must be given to all shareholders, and shareholders who wish to attend the meeting must reply in writing at least 20 days before the date of the meeting. For a company incorporated in Hong Kong, the notice period for an annual general meeting is at least 21 days and in any other case, at least 14 days for a limited company and at least 7 days for an unlimited company.

Quorum for Shareholders' Meetings

Under Hong Kong law, the quorum for a general meeting must be at least two members unless the articles of association of the company otherwise provide. For companies with only one member, the quorum must be one member. The Company Law does not specify any quorum requirement for a shareholders' general meeting, but the Special Regulations and the Mandatory Provisions provide that general meetings may only be convened when replies to the notice of that meeting have been received from shareholders whose shares represent at least 50% of the voting rights at least 20 days before the proposed date of the meeting, or if that 50% level is not achieved, the company shall within five days notify its shareholders again by way of a public announcement and the shareholders' general meeting may be held thereafter.

Voting

Under Hong Kong law, an ordinary resolution is passed by a simple majority of votes cast by members present in person or by proxy at a general meeting and a special resolution is passed by a majority of not less than three-fourths of votes cast by members present in person or by proxy at a general meeting. Under the Company Law, the passing of any resolution requires affirmative votes of shareholders representing more than half of the voting rights represented by the shareholders who attend the general meeting except in cases of proposed amendments to a company's articles of association, increase or decrease of registered capital, merger, division or dissolution, or change of corporation form, which require affirmative votes of shareholders representing more than two-thirds of the voting rights represented by the shareholders who attend the general meeting.

Financial Disclosure

Under the Company Law, a joint stock limited company is required to make available at the company for inspection by shareholders its financial report 20 days before its shareholders' annual general meeting. In addition, a joint stock limited company of which the shares are publicly offered must publish its financial report. The Companies Ordinance requires a company incorporated in Hong Kong to send to every shareholder a copy of its balance sheet, auditors' report and directors' report, which are to be presented before the company in its annual general meeting, not less than 21 days before such meeting. A joint stock limited liability company is required under the PRC law to prepare its financial statements in accordance with the PRC GAAP. The Mandatory Provisions require that a company must, in addition to preparing financial statements according to the PRC GAAP, have its financial statements prepared and audited in accordance with international or Hong Kong accounting standards and its financial statements must also contain a statement of the financial effect of the material differences (if any) from the financial statements prepared in accordance with the PRC GAAP.

The Special Regulations require that there should not be any inconsistency between the information disclosed within and outside the PRC and that, to the extent that there are differences in the information disclosed in accordance with the relevant PRC and overseas laws, regulations and requirements of the relevant stock exchanges, such differences should also be disclosed simultaneously.

Information on Directors and Shareholders

The Company Law gives shareholders the right to inspect the company's articles of association, minutes of the shareholders' general meetings and financial and accounting reports. Under the Articles of Association, shareholders have the right to inspect and copy (at reasonable charges) certain information on shareholders and on directors which is similar to the shareholders' rights of Hong Kong companies under Hong Kong law.

Receiving Agent

Under the Company Law and Hong Kong law, dividends once declared are debts payable to shareholders. The limitation period for debt recovery action under Hong Kong law is six years, while under the PRC law this limitation period is two years. The Mandatory Provisions require the relevant company to appoint a trust company registered under the Hong Kong Trustee Ordinance (Chapter 29 of the Laws of Hong Kong) as a receiving agent to receive on behalf of holders of shares dividends declared and all other monies owed by the company in respect of its shares.

Corporate Reorganisation

Corporate reorganisation involving a company incorporated in Hong Kong may be effected in a number of ways, such as a transfer of the whole or part of the business or property of the company in the course of voluntary winding up to another company pursuant to Section 237 of the Companies (WUMP) Ordinance or a compromise or arrangement between the company and its creditors or between the company and its members pursuant to Section 673 and Section 674 of the Companies Ordinance, which requires the sanction of the court. Under PRC law, merger, division, dissolution or change to the status of a joint stock limited liability company has to be approved by shareholders in general meeting.

Dispute Arbitration

In Hong Kong, disputes between shareholders on the one hand, and a company incorporated in Hong Kong or its directors on the other, may be resolved through legal proceedings in the courts. The Mandatory Provisions provide that such disputes should be submitted to arbitration at either the HKIAC or the CIETAC, at the claimant's choice.

Mandatory Deductions

Under the Company Law, a joint stock limited liability company is required to make transfers equivalent to certain prescribed percentages of its after tax profit to the statutory common reserve fund. There are no corresponding provisions under Hong Kong law.

Remedies of the Company

Under the Company Law, if a director, supervisor or manager in carrying out his duties infringes any law, administrative regulation or the articles of association of a company, which results in damage to the company, that director, supervisor or manager should be responsible to the company for such damages. In addition, the Listing Rules require listed companies' articles of association to provide for remedies of the company similar to those available under Hong Kong law (including rescission of the relevant contract and recovery of profits from a director, supervisor or senior management).

Dividends

The company has the power in certain circumstances to withhold, and pay to the relevant tax authorities, any tax payable under PRC law on any dividends or other distributions payable to a shareholder. Under Hong Kong law, the limitation period for an action to recover a debt (including the recovery of dividends) is six years, whereas under PRC laws, the relevant limitation period is two years. The company must not exercise its powers to forfeit any unclaimed dividend in respect of shares until after the expiry of the applicable limitation period.

Fiduciary Duties

In Hong Kong, there is the common law concept of the fiduciary duty of directors. Under the Special Regulations, directors, supervisors are not permitted to engage in any activities which compete with or damage the interests of their company.

Closure of Register of Shareholders

The Companies Ordinance requires that the register of shareholders of a company must not generally be closed for the registration of transfers of shares for more than 30 days (extendable to 60 days in certain circumstances) in a year, whereas, as required by the Company Law and the Mandatory Provisions, share transfers shall not be registered within 30 days before the date of a shareholders' meeting or within five days before the base date set for the purpose of distribution of dividends.

Any person wishing to have detailed advice on PRC law or the laws of any jurisdiction is recommended to seek independent legal advice.

Certain provisions in the Articles of Association of our Company are summarised as follows.

Summary of Articles of Association

Our Company is a joint stock company incorporated under the Company Law with limited liability on 22 July 2014.

The Articles of Association include its constitutional documents.

This Appendix contains the summary of the principal provisions of the Articles of Association of our Company passed on 16 September 2014 which will be applicable following the listing of the H shares and come into effect on the date on which H shares become listed on the Stock Exchange. The main purpose of this Appendix is to provide potential investors with an overview of the Articles of Association. The following information is only a summary, which does not contain all the information that is important for potential investors. As set out in “Appendix VI — Documents Delivered to the Registrar of Companies and Available for Inspection — Documents Delivered to the Companies Registrar” and “Appendix VI — Documents Delivered to the Registrar of Companies and Available for Inspection — Documents Available for Inspection”, the full text in Chinese of the Articles of Association is available for reference.

1. DIRECTORS AND BOARD OF DIRECTORS

(a) Power to allocate and issue shares

The Articles of Association does not contain any clauses that authorise the Board of Directors to allocate or issue shares. The Board of Directors shall prepare proposals for share allotment or issue, which are subject to approval by the Shareholders at the general meetings by way of a special resolution. Any such allotment or issue shall be in accordance with the procedures stipulated in the relevant laws and administrative regulations.

(b) Power to dispose assets of our Company or any of our subsidiaries

In disposing of fixed assets, if the sum of the expected value of the fixed assets to be disposed of and the amount or value of the consideration received from the fixed assets of our Company disposed of within the four months immediately preceding this proposal for disposal exceeds 33% of the value of fixed assets of our Company shown on the latest audited balance sheet submitted to the Shareholders at the Shareholders’ meeting, the Board of Directors shall not dispose of or agree to dispose of such fixed assets without the prior approval of Shareholders at the general meeting. The above disposal refers to the transfer of interests in certain assets, but does not include the provision of guarantees with fixed assets. The validity of the transactions with respect to the disposal of fixed assets of our Company shall not be affected by the violation of the above restrictions contained in the Articles of Associations.

(c) Indemnification or compensation for loss of office

As provided in the contracts entered into between our Company and the Directors or Supervisors in connection with their emoluments, they are entitled to compensation or other payments for loss of office or retirement as a result of the acquisition of our Company, subject to the prior approval of the Shareholders at the general meeting. Acquisition of our Company refers to any of the following:

- (i) An offer is made to all the Shareholders of our Company; or
- (ii) An offer is made such that the offeror will become the Controlling Shareholder of our Company (as defined in the Articles of Association).

If the relevant Director or Supervisor fails to comply with the above requirements, any payment received by him shall belong to the person who sells the Shares for acceptance of the aforesaid offer. The Director or Supervisor shall bear all expenses arising from the distribution of such payments to the person on pro rata basis, and all related expenses shall not be deducted from the payments distributed.

(d) Loans to Directors, Supervisors or other management personnel

Our Company shall not directly or indirectly make a loan to or provide any guarantee in connection with the making of a loan to a Director, Supervisor and senior management of our Company or our parent company or any of their respective associates.

In the event that our Company provides loans in violation of the above restriction, the person who receives the loan(s) must pay off the loan(s) immediately, regardless of the terms of the loans. Any loan guarantee provided by our Company in violation of the above restriction shall not be enforced against us, unless under the following circumstances:

- (i) The loan provider unknowingly provides loans to personnel related to the Directors, Supervisors and senior management of our Company or our parent company; or
- (ii) The collateral provided by our Company is sold lawfully by the lender to the buyer in good faith.

The following transactions are exempted from the above clauses:

- (i) Our Company provides our subsidiaries with loans or loan guarantees;
- (ii) Our Company provides any of the Directors, Supervisors or senior management with loans, loan guarantees or any other funds pursuant to the employment contract(s) approved at the Shareholders' meeting to pay all expenses incurred for the purpose of our Company or performing duties for our Company; and

- (iii) In case that the normal scope of business of our Company covers the provision of loans or loan guarantees, our Company may provide any of the Directors, Supervisors or senior management or other related personnel with loans or guarantees for loans to the above personnel, provided that the terms and conditions governing the above loans or loan guarantees shall be on normal commercial conditions.

For the purpose of the above provisions, “guarantee” includes the acts of the guarantor assume obligations or providing properties to ensure that the obligor performs the obligations.

(e) Financial assistance provided for acquisition of the Shares of our Company or our its subsidiaries

Pursuant to the Articles of Association:

- (i) Our Company or our subsidiaries shall not, by any means at any time, provide any financial assistance to personnel who acquires or plans to acquire the Shares. Such personnel includes anyone who directly or indirectly assumes obligations from acquiring the Shares.
- (ii) Our Company or our subsidiaries shall not, by any means at any time, provide financial assistance to personnel mentioned in the preceding paragraph for the purpose of mitigating or exempting the obligations of the above personnel.

The following transactions are not prohibited:

- (i) Related financial assistance provided by our Company which is in good faith in our interest and the main purpose of the financial assistance is not to acquire the Shares or is incidental to a master plan of our Company;
- (ii) Lawful distribution of our properties by our Company by way of dividend;
- (iii) Distribution of dividends in the form of Shares;
- (iv) Reduction of registered capital, repurchase of Shares or adjustments of our shareholding structure pursuant to the Articles of Association;
- (v) Our Company grants loans within our scope of business and in the ordinary course of our business, provided that such loans shall not result in the reduction in the net assets of our Company or even if the net assets are reduced, this financial assistance is paid out of the profit available for distribution of our Company;
- (vi) Our Company provides the employee stock ownership plan with funds, provided that such loans shall not result in the reduction in the net assets of our Company or even if the net assets are reduced, this financial assistance shall be paid out of the profit available for distribution of our Company.

For this purpose:

- (i) “financial assistance” includes, but is not limited to:
 - (aa) Gift;
 - (bb) Guarantee (including the assumption of liabilities and provision of properties by a guarantor to secure the performance of obligations by the obligor), compensation (excluding compensation arising from mistakes of our Company) or release or waiver of any rights;
 - (cc) Assistance given by way of a loan; or entering into an agreement under which our Company is required to perform its obligations ahead of the other contracting parties; or entering into an agreement for the change of contracting parties or the assignment of rights arising under such loan or such agreement; or
 - (dd) Any other form of financial assistance given by our Company when it is insolvent or has no net assets or will suffer significant decrease in net assets as a result of the financial assistance; and
 - (ii) “Assuming obligations” includes assuming obligations by signing agreements or making arrangements (whether or not the agreements or arrangements are enforceable or assuming the obligations by itself or jointly with any other person) or changing its financial status in any other manner.
- (f) **Disclosure of matters relating to the contractual rights of our Company and voting on contract(s)**

When any of the Directors, Supervisors and senior management has material interests in the contracts, transactions or arrangements that our Company has entered into or plans to enter into in any manner directly or indirectly (except for employment contracts that our Company has entered into with the Directors, Supervisors, general manager and other senior management), the above personnel shall disclose the nature and degree of their interests to the Board of Directors as soon as possible regardless of whether such matters are subject to the approval of the Board of Directors in normal circumstances.

Unless the interested Director, Supervisor and senior management of our Company discloses his/her interests to the Board in accordance with the aforesaid provision and the contract, transaction or arrangement is approved by our Board at a meeting in which the interested Director, Supervisor and senior management is not counted in the quorum and refrains from voting, our Company shall have the right to cancel the contracts, transactions or arrangements, except where the opposite party is a party in good faith without knowledge of

the acts or related Directors, Supervisors and senior management violating their obligations. A Director, Supervisor, general manager or other senior management of our Company is deemed to be interested in such contract, transaction or arrangement in which his/her related person or associate is interested.

Where a Director, Supervisor or other senior management of our Company gives to the Board of Directors a notice in writing stating that, by reason of the facts specified in the notice, he/she is interested in contracts, transactions or arrangements which may subsequently be made by our Company, that notice shall be deemed for the purposes of the preceding article to be a sufficient disclosure of his/her interests, so far as the content stated in such notice is concerned, provided that such notice shall have been given before the date on which the question of entering into the relevant contract, transaction or arrangement is first taken into consideration by our Company.

(g) Remuneration

Our Company shall enter into written agreements with its Directors and Supervisors regarding remuneration, which shall be subject to prior approval of the general Shareholder's meeting. The remuneration shall include:

- (i) Remuneration as the Directors, Supervisors or senior management of our Company;
- (ii) Remuneration as the directors, supervisors or senior management of the subsidiaries of our Company;
- (iii) Remuneration for providing other services for management of our Company and our subsidiaries;
- (iv) Compensation received by the Directors or Supervisors as a result of loss of office or retirement.

No Director or Supervisor shall institute any litigation against our Company over any interests payable relative to the above unless provided for the above contracts.

(h) Resignation, appointment and removal

None of the following persons shall serve as a Director, Supervisor, general manager or other senior management of our Company:

- (i) Anyone who has no civil capacity or has limited civil capacity;
- (ii) Anyone who has been convicted of the offense of corruption, bribery, embezzlement, larceny, or disrupting the social economic order and is within five years of the expiry date of punishment or has been deprived of political rights because of this conviction and is within five years of the expiry date of the sentence;

- (iii) Anyone who has served as director, factory manager or manager of a company or enterprise that is bankrupt and liquidated as a result of improper management, was personally liable for the bankruptcy of our Company or enterprise, and is within three years of the date of completion of bankruptcy and liquidation of our Company or enterprise;
- (iv) Anyone who has served as the legal representative of a company or enterprise whose business license was revoked or which was ordered to shut down due to violation of the law, was personally liable, and is within three years of the date on which the business license of the company or enterprise was revoked;
- (v) Anyone who owes a huge amount of overdue debt;
- (vi) Anyone who is under criminal investigation by a judicial organization for violating the criminal law and whose case is pending;
- (vii) Anyone who cannot serve as management of a company under laws and administrative rules;
- (viii) Anyone who is not a natural person;
- (ix) Anyone judged by the competent agencies to have violated the provisions of relevant securities laws, has been involved in deceptive or dishonest acts and is within five years of the date on which the judgment was made;
- (x) Other circumstances as provided by laws and regulations in the place where the Shares of our Company are listed.

The validity of the conduct of Directors, general manager or other senior management who have acted on behalf of our Company with respect to third parties who have acted in good faith shall not be affected due to any irregularity in the employment, election or qualification of such Directors, general manager or other senior management.

Our Company has a board of directors, which is consisted of 12 Directors. Non-employee representative Directors shall be elected at a general meeting. A Director need not hold any Shares of our Company.

The chairman and the vice chairman of the Board shall be elected or removed by the majority of all Directors. Any Director whose term of office has not expired may be removed by an ordinary resolution.

The term of office of the chairman and other Directors shall be three years and they are eligible for re-election.

The list of Directors' and Supervisors' candidates shall be proposed in form of a motion to the general meeting for consideration.

(i) Borrowing Power

Subject to compliance with national laws and administrative regulations, our Company has the right to raise funds and obtain loans, including (but not limited to) issuing bonds, mortgaging or pledging all or part of the properties of our Company, as well as exercising other rights approved by national laws and administrative regulations, provided that such act shall not undermine or revoke the rights of any Shareholder.

The Articles of Association does not include any special provision regarding the manner in which the Directors may exercise the right to obtain loans or the manner in which such a right is created except (a) the provision regarding the power of the Directors to develop schemes for our Company to issue bonds, and (b) the provision that the bond issue must be approved by the Shareholders through a special resolution at the general meeting.

(j) Responsibilities

The Directors, Supervisors and senior management of our Company shall bear the responsibility of good faith and diligence towards our Company. In the event of violation of obligations owed to our Company by the Directors, Supervisors, general manager and senior management, our Company have the right to take the following measures in addition to various rights and remedial measures stipulated in legal and administrative regulations:

- (i) To require related Directors, Supervisors or senior management to compensate our Company for losses sustained as a result of their neglect of duty;
- (ii) To rescind any contract or transaction entered into between our Company and related Directors, Supervisors or senior management as well as any contract or transaction entered into between our Company and any third person when the third person knew or should have known that the Directors, Supervisors or senior management acting violated their obligations owed to our Company;
- (iii) To require the relevant Directors, Supervisors or senior management to turn over the benefit obtained from the violation of their obligations;
- (iv) To recover funds collected by the relevant Directors, Supervisors or other senior management that should have been collected for our Company, including but not limited to commissions;
- (v) To require the relevant Directors, Supervisors or senior management to return the interest earned or that may be earned from funds that should have been paid to our Company;
- (vi) To initiate legal procedures to request a ruling that our Company shall have the ownership of the property possessed by Directors, Supervisors, general manager and other senior management for breach of obligation.

The Board of Directors shall comply with laws, administrative regulations, the Articles of Association and resolutions passed at the general meeting in performing its duties. When performing their responsibilities, the Directors, Supervisors and senior management shall comply with the principle of integrity and shall not put themselves in situations where their own interests may conflict with the obligations they have assumed. This principle includes, but is not limited to, performing the following obligations:

- (i) To act honestly in the best interests of our Company;
- (ii) To exercise one's rights within but not exceeding the scope of authority;
- (iii) To exercise the discretion vested in him personally without being manipulated by others and not transferring discretionary powers to other persons, unless and to the extent permitted by laws or administrative regulations or with the informed consent of Shareholders given in a general meeting;
- (iv) To treat Shareholders of the same class equally and to treat Shareholders of different classes fairly;
- (v) Not to enter into any contract, transaction or arrangement with our Company unless in line with the Articles of Association or otherwise approved by Shareholders at the general meeting on an informed basis;
- (vi) Not to use properties of our Company in any manner for his/her own benefit without consent of general meeting on an informed basis;
- (vii) Not to exploit his/her position to accept bribes or other illegal income or misappropriate funds or expropriate properties of our Company by any means, including (but not limited to) opportunities beneficial to our Company;
- (viii) Not to accept commissions in connection with transactions of our Company unless agreed by the general meeting on an informed basis;
- (ix) To abide by the Articles of Association, faithfully execute official duties and protect interests of our Company, and not to exploit his/her position and authority in our Company for his/her own benefits;
- (x) Not to compete with our Company in any manner unless agreed by the general Shareholders' meeting on an informed basis;
- (xi) Not to misappropriate funds of our Company or lend such funds to others, not to open accounts in his/her own name or other names for deposit of the assets of our Company, and not to lend such funds or provide guarantee for the Shareholders of our Company or other individual(s) with the assets of our Company in violation of the Articles of Association and without a consent obtained at the general meeting; and

- (xii) Not to disclose any confidential information acquired by him/her during his/her tenure in respect of our Company, unless otherwise permitted by the Shareholders at the general meeting on an informed basis; not to use such information unless in the interests of our Company; however, disclosure of such information to courts or other governmental authorities is permitted under the following circumstances: (aa) disclosure is required by laws; (bb) disclosure is required by public interests; (cc) disclosure is required by the interests of the relevant Director, Supervisor, general manager or other senior management.

None of the Directors, Supervisors, general manager or other senior management of our Company shall instruct any of the following personnel or institutions (“**related person**”) to do acts that the Directors, Supervisors and senior management are prohibited from doing:

- (i) Spouses or minor children of the Directors, Supervisors, general manager and other senior management of our Company;
- (ii) Trustees of the Directors, Supervisors, general manager and other senior management of our Company or the persons referred to in item (i) above;
- (iii) Partners of the Directors, Supervisors, general manager and other senior management of our Company or persons referred to in items (i) and (ii) above;
- (iv) Companies under de facto control by the Directors, Supervisors, general manager and other senior management individually or jointly with one or more persons or other Directors, Supervisors and senior management referred to in items (i), (ii) or (iii) above;
- (v) The directors, supervisors, general manager and other senior management of the controlled company referred to in item (iv) above.

The good faith obligation owed by the Directors, Supervisors, general manager and other senior management of our Company may not necessarily terminate upon the expiration of their terms of office; their obligations to keep the trade secrets of our Company in confidence shall survive upon the expiration of their terms of office. The duration of other obligations shall be determined in accordance with the principle of fairness, depending on the length of time from the occurrence of the events to the time of resignation, as well as the circumstances and conditions under which the relationship with our Company is terminated.

Liabilities of the Directors, Supervisors, general manager and other senior management of our Company arising from violation of specific duties may be released by the Shareholders at the general meeting on an informed basis, unless otherwise provided in the Articles of Association.

Apart from the obligations required by the relevant laws, administrative regulations or the listing rules of the stock exchange where the Shares of our Company are listed, the Directors, Supervisors, general manager and other senior management of our Company shall assume the following obligations to each of the Shareholders when exercising their authorities conferred by our Company:

- (i) They may not cause our Company to operate beyond the scope of business indicated on our business license;
- (ii) They shall act honestly in the best interests of our Company;
- (iii) They may not deprive our Company of our properties in any manner, including, but not limited to, opportunities beneficial to our Company;
- (iv) They may not deprive the Shareholders of personal rights and interests, including, but not limited to, the distribution right and voting right, except for restructuring of our Company submitted to the general meeting for approval pursuant to the provisions of the Articles of Association.

Each of the Directors, Supervisors and senior management of Company owes a duty, in the exercise of his/her powers and discharge of his/her duties, to exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances.

2. MODIFICATION OF THE ARTICLES OF ASSOCIATION

Our Company may amend the Articles of Association based on the requirements of the relevant laws, administrative regulations and the Articles of Association.

Any amendment to the Articles of Association that involves the Mandatory Provisions shall be subject to approval by company approval authorities authorised by the State Council and the securities regulatory authorities of the State Council before taking into effect. Where the amendment involves the registration of our Company, the procedures for registration change shall be carried out in accordance with the law.

3. CHANGE IN RIGHTS OF EXISTING SHARES OR CLASS OF SHARES

Our Company shall not change or abolish any rights attached to any class of shares (the “**Class Right**”), unless approved by a special resolution and with the approval of a separate general meeting as convened by the affected class Shareholders in accordance with the Articles of Association. The rights of a class Shareholder shall be deemed as changed or abolished under any of the following circumstances:

- (i) Increasing or reducing the number of such class of Shares, or increasing or reducing the number of such class of Shares with equal or more voting or distribution rights and other privileges than such class of Shares;

- (ii) Converting all or part of class Shares into other types or converting all or part of another class of Shares into such class of Shares or granting such conversion right;
- (iii) Cancelling or reducing rights to dividends generated or rights to cumulative dividends attached to such class of Shares;
- (iv) Reducing or removing the right attached to such class of Shares to receive dividends on a priority basis or the priority right to receive property distribution in the liquidation of our Company;
- (v) Increasing, cancelling or reducing share conversion rights, options, voting rights, transfer or pre-emptive rights, or rights to acquire securities of our Company attached to such class of Shares;
- (vi) Cancelling or reducing rights to receive payment by our Company in specified currencies attached to such class of Shares;
- (vii) Creating new class of Shares having voting or distribution rights, or other privileges equal or superior to those of such class of Shares;
- (viii) Imposing restrictions on the transfer or ownership of such class of Shares or increase such restrictions;
- (ix) Issuing subscription or conversion rights for such or other class of Shares;
- (x) Increasing the rights and privileges of other class of Shares;
- (xi) The reorganization plan of our Company may constitute assumption of responsibilities by different classes of Shareholders disproportionately in a reorganisation;
- (xii) Amending or abolishing clauses stipulated in the Articles of Association.

Shareholders of the affected class, whether or not having the right to vote at the general meeting, shall nevertheless have the right to vote at class meetings in respect of matters concerning items (ii) to (viii), (xi) and (xii) above, however the interested Shareholders (as defined below) shall not be entitled to vote at class meetings.

Resolution of a class meeting shall be passed by votes of more than two-thirds of Shareholders attending the relevant class meeting with voting rights at such meeting.

Written notice of a class meeting shall be given 45 days before the date of the class meeting to notify all of the class Shareholders in the share register of the matters to be considered at the meeting and the date and place of the class meeting. A Shareholder who intends to attend the class meeting shall deliver his/her written reply concerning attendance at the class meeting to our Company 20 days before the date of the class meeting.

If the number of Shares carrying voting rights at the class meeting represented by the Shareholders who intend to attend the class meeting reaches the majority of the aggregate Shares of such class carrying voting rights at the meeting, our Company may hold the class meeting; if not, our Company shall within five days notify the Shareholders of such class again by public notice, of the matters to be considered at the meeting and the date and place for the class meeting. Our Company may then convene the class meeting after publication of such notice. Notice of class meetings needs only to be served on Shareholders who are entitled to vote at the meetings.

Class meetings shall be conducted in procedures as similar as possible to those of general meetings. The provisions of our Articles of Association relating to the procedure for conducting general meeting shall apply to any class meeting.

Except for holders of other classes of Shares, holders of Domestic Shares and overseas listed foreign Shares are deemed to be Shareholders of different classes.

The special procedures for voting by class Shareholders shall not apply under the following circumstances:

- (i) Upon the approval by a special resolution at the general meeting, our Company either separately or concurrently issues Domestic Shares and overseas listed foreign Shares every 12 months, and the number of Shares of each class to be issued shall not account for more than 20% of the outstanding Shares of such class;
- (ii) The plan to issue Domestic Shares and overseas listed foreign Shares upon the establishment of our Company is completed within 15 months of the date of approval by the securities regulatory authorities of the State Council;
- (iii) Upon the approval by the State Council or the approval authority authorised by it, the Shares held by promoters are converted into foreign shares and become listed for trading on an overseas stock exchange.

For the purposes of the provisions relating to the rights of class Shares, “interested Shareholders” shall have the following meanings:

- (i) if a repurchase offer is made to all Shareholders in the same proportion or Shares are repurchased on the Hong Kong Stock Exchange through open transaction, they shall mean the Controlling Shareholders as defined in the Articles of Association;
- (ii) if Shares are repurchased by an agreement other than on the Hong Kong Stock Exchange, it shall mean the Shareholders involved in the agreement;
- (iii) under a restructuring proposal of our Company, they shall mean shareholders who will bear liability in a proportion smaller than that of the liability borne by other shareholders of the same class, or shareholders who have an interest that is different from the interest of other shareholders of the same class.

4. SPECIAL RESOLUTIONS—REQUIRES MAJORITY VOTE

Resolutions of the general meetings are divided into ordinary resolutions and special resolutions.

Adoption of an ordinary resolution at a general meeting shall be subject to approval by the majority of votes represented by the Shareholders (including their proxies) attending the meeting.

Adoption of a special resolution at general meeting shall be subject to approval by more than two-thirds of votes represented by the Shareholders (including their proxies) attending the meeting.

5. VOTING RIGHTS (GENERALLY RELATING TO RIGHTS ON POLL OR RIGHTS TO DEMAND A POLL)

The ordinary Shareholders of our Company have the right to attend or appoint a proxy to attend and vote at the general meeting. A Shareholder (including a proxy) when voting at a general meeting may exercise voting rights in accordance with the number of Shares with voting power held on the basis of one vote for each share.

All votes at general meetings shall be conducted by poll. On a poll taken at a general meeting, a Shareholder (including a proxy) entitled to two or more votes needs not cast all of his/her votes in the same way.

If there is an equality of votes, whether on a show of hands or on a poll, the chairman of the meeting shall have an additional and casting vote.

6. REQUIREMENTS ON GENERAL MEETINGS

General meetings are divided into annual general meetings and extraordinary general meetings. General meetings shall be convened by the Board. The annual general meeting shall be convened once a year and be held within six months of the end of the previous accounting period.

7. ACCOUNTING AND AUDIT**(a) Financial and accounting systems**

Our Company shall establish its financial and accounting systems in accordance with laws, administrative regulations and other requirements of relevant departments of the PRC.

The Board of our Company shall place before the Shareholders at every annual general meeting such financial reports which were prepared in accordance with the relevant laws, administrative regulations and directives promulgated by competent regional and central governmental authorities.

Apart from the Chinese accounting standards and regulations, the financial statements of our Company shall also conform to international accounting standards and the accounting standards of overseas areas where the our Company's Shares are listed. In the event of any major discrepancy between the financial statements prepared in accordance with the above accounting standards, explanations and notes, must be provided in the financial statements. As to the distribution of after-tax profits of our Company in a fiscal year, the after-tax profits indicated on the two sets of financial statements, whichever is lower shall prevail.

Our Company's financial reports shall be made available for Shareholders' inspection at our Company 20 days before the date of annual general meeting. Each Shareholder shall be entitled to have a copy of the financial reports.

Our Company shall deliver or send to each holder of Overseas Listed Foreign Shares by prepaid mail at the address registered in the register of Shareholders the said reports not later than 21 days before the date of every annual general meeting.

Any interim results or financial information published or disclosed by our Company must also be prepared and presented in accordance with PRC accounting standards and regulations, and also in accordance with either international accounting standards or that of the place overseas where our Company's Shares are listed.

Our Company published financial reports twice every fiscal year, i.e. publishing interim financial reports within 60 days at the end of the first 6 months of a fiscal year and publishing annual financial report within 120 days after the end of a fiscal year.

Our Company shall not keep accounts other than those required by law. Our Company's assets are not deposited in an account opened in the name of any individuals.

(b) Appointment and dismissal of accountants

Our Company shall appoint an independent accounting firm which is qualified under the relevant regulations of the State to audit our Company's annual financial report and review other financial reports of our Company.

Our Company's first accounting firm can be appointed at an inauguration assembly before the first annual general meeting, and the term of service of the firm will terminate at the end of the first annual general meeting.

The accounting firm appointed by our Company shall hold office from the conclusion of the annual general meeting at which they were appointed until the conclusion of the next annual general meeting.

The Shareholders in a general meeting may by ordinary resolution remove the accounting firm before the expiration of its term of office, irrespective of the provisions in the contract between our Company and the accounting firm. However, the right of the accounting firm in claiming for damages which arise from its removal shall not be affected thereby.

The emolument of an accounting firm or the manner in which such firm is to be remunerated shall be determined by the Shareholders in a general meeting.

Our Company's appointment, removal or non-reappointment of an accounting firm shall be resolved by the Shareholders in a general meeting. Such resolution shall be filed with the securities authority of the State Council.

Prior notice should be given to the accounting firm in advance if our Company decides to remove or not to renew appointment of such accounting firm. Such accounting firm shall be entitled to make representations at the general meeting.

Where the accounting firm resigns from its position, it shall make clear to the Shareholders in a general meeting whether there has been any impropriety on the part of our Company.

An accounting firm may resign its office by depositing at our Company's domicile a resignation notice. Such resignation notice shall become effective on the date of such deposit or on such later date as may be stipulated in such notice. Such notice shall include the following:

- (i) a statement to the effect that there are no circumstances connected with its resignation which it considers should be brought to the notice of the Shareholders or creditors of our Company; or
- (ii) a statement of any such circumstances.

Where a notice is deposited under the foregoing paragraph, our Company shall within fourteen (14) days send a copy of the notice to the competent authority. If the notice contained a statement under the above paragraph (ii), our Company shall deposit a copy of such statement in our Company for examination by the Shareholders. Our Company shall also send a copy of such statement by postage pre-paid mail to each holders of Overseas Listed Foreign Shares.

Where the accounting firm's notice of resignation contains a statement as referred in the above paragraph (ii), it may require the Board to convene an extraordinary general meeting for the purpose of receiving an explanation of the circumstances connected with its resignation.

8. NOTICE AND SCHEDULE OF THE GENERAL MEETING

The general meeting is the organ of authority of our Company and shall exercise its functions and powers in accordance with laws.

In addition to the situation that our Company is in crisis or other special circumstances, our Company shall not enter into any contract with any person other than a Director,

Supervisor or senior management of our Company whereby the management and administration of the whole or any substantial part of any business of our Company is to be handed over to such a person without the prior approval of Shareholders by special resolution in a general meeting.

General meetings can be divided to annual general meetings or extraordinary general meetings. The Board shall convene an extraordinary general meeting within two months after the occurrence of any one of the following circumstances:

- (i) where the number of Directors is less than the number stipulated in the Company Law or is no more than two-thirds of the number required by the Articles of Association;
- (ii) where the accrued losses of our Company amount to one-third of its total share capital;
- (iii) where Shareholders holding 10% or more of our Company's issued Shares make a request in writing to convene an extraordinary general meeting;
- (iv) where the Board considers it necessary or the Supervisory Committee proposes to call for such a meeting;
- (v) when proposed by more than two independent Directors;
- (vi) other circumstances stipulated by laws, administrative regulations, departmental rules and regulations, local listing rules of securities exchanges where our Company's Shares are listed or the Articles of Association.

When convening a general meeting, our Company shall send a written notice to inform all registered Shareholders of the matters to be deliberated at the meeting as well as the date and venue of the meeting 45 days before it is convened. Shareholders planning to attend shall send to our Company a written reply to that effect 20 days before the meeting is held.

At our Company's general meeting, the Shareholders individually or jointly holding 3% or more Shares with voting power are entitled to submit new written proposals to our Company.

Our Company shall calculate the number of Shares with voting power represented by the Shareholders planning to attend the general meeting in accordance with the written replies received 20 days before the meeting is convened. In the event that the number of Shares with voting power represented by the Shareholders planning to attend reaches more than one half of our total number of Shares with voting power, our Company may convene the general meeting. If this number is not reached, our Company shall again inform the Shareholders of the matters to be deliberated and the date and venue of the meeting within five days in the form of an announcement before the general meeting may be convened. The extraordinary general meeting shall not resolve on matters that have not been clearly stated in the notice as mentioned in the preceding paragraph.

The notice of the general meeting shall be in writing form and including the following:

- (i) specified time, venue and duration of the meeting;
- (ii) specified matters to be deliberated at the meeting;
- (iii) provision to the Shareholders of materials and explanations necessary for the Shareholders to make sound decisions about the matters to be deliberated. This principle includes, but is not limited to, the provision of the detailed conditions and contract(s), if any, of the proposed transaction(s) and proper explanations about related causes and effects when our Company proposes merger(s), redemption of Shares, restructuring of stock capital or other restructuring;
- (iv) in the event that any of the Directors, Supervisors or senior management has material interests at stake in matters to be deliberated, the nature and extent of the interests at stake shall be disclosed. If the matters to be deliberated affect any Director, Supervisor or senior management as a Shareholder in a manner different from how they affect other Shareholders of the same type, the difference shall be explained;
- (v) inclusion of the full text of any special resolution to be proposed for adoption at the meeting;
- (vi) a clear explanation that the Shareholder is entitled to attend and vote at the general meeting, or to appoint one or more entrusted representative to attend and vote at the meeting on his/her behalf and that such may not necessarily be Shareholders;
- (vii) specified delivery time and place of the power of attorney for proxy voting of the meeting.

The notice of the general meeting shall be sent in person or by postage-paid mail, to the Shareholders regardless of whether such Shareholders have the right to vote at the general meeting, and each recipient's address shall be according to the address indicated on the register of Shareholders. For holders of Domestic Shares, the notice of our general meeting shall be given in the form of an announcement.

The notice of the general meeting shall be published in one or more newspapers designated by the securities regulatory agency of the State Council 45 to 50 days prior to the meeting. All holders of Domestic Shares shall be deemed to have received the notice of general meeting upon the publication of the announcement. The notices served to holders of Overseas Listed Foreign Shares may be published on the Hong Kong Stock Exchange's website or in one or more newspapers designated by it. All holders of Overseas Listed Foreign Shares shall be deemed to have received the notice of general meeting upon the publication of the announcement.

Shareholders who request an extraordinary general meeting or a general meeting of a class of Shareholders shall comply with the following procedures:

- (i) two or more Shareholders who individually or collectively hold 10% or more of the Shares carrying voting rights on the proposed general meeting can request the Board to convene an extraordinary general meeting or a class meeting by signing one or several copies of written request(s) in the same form and content, and stating the motions proposed. The Board shall convene the extraordinary general meeting or the class meeting as soon as practicably upon receipt of the foresaid written requirement. The number of shareholdings referred to above shall be calculated as at the date of request made.
- (ii) if the Board fails to issue a notice of such a meeting within 30 days upon receipt of the aforesaid requisition(s), the shareholders calling for the meeting may convene the meeting themselves within four months after the Board has received the requisition. The procedures for convening the meeting shall be the same, to the extent possible, as the procedures for a general meeting convened by the Board.

If the Shareholders call and convene a meeting by themselves since the Board cannot convene a meeting in accordance with the foresaid requirement, the expenses reasonably resulted therefrom shall be borne by our Company and be deducted from the amounts due to the Directors as a result of loss of office.

The following matters shall be adopted by the general meeting through ordinary resolutions:

- (i) work reports of the Board and the Supervisory Committee;
- (ii) plans formulated by the Board for the distribution of profits and for making up losses;
- (iii) appointment or removal of members of the Board and Supervisory Committee (except for the employee representative Supervisors), and their remuneration and manner of payment thereof;
- (iv) annual preliminary and final budgets, balance sheets, income and other financial statements of our Company;
- (v) matters other than those required by the laws, administrative regulations or the Articles of Association to be approved by special resolutions.

The following matters shall be resolved by a special resolution at the general meeting:

- (i) the increase or decrease in our Company's share capital, and issue of Shares of any class, warrants and other similar securities;

- (ii) the issue of debentures of our Company;
- (iii) division, merger, dissolution and liquidation of our Company;
- (iv) change in the form of our Company;
- (v) any material acquisition or disposal of assets by our Company or the guarantee within one year the amount of which shall exceed 30% of our Company's total audited assets for the latest financial period;
- (vi) amendments to the Articles of Association;
- (vii) share incentive plans to be considered and implemented;
- (viii) any other matters as required by applicable laws, administrative regulations and the Articles of Association or as decided by the general meeting by way of an ordinary resolution, to be of a nature which may have a material impact on our Company and should be adopted by a special resolution;
- (ix) any other matters as required by the Listing Rules of the Hong Kong Stock Exchange to be passed by way of a special resolution.

9. TRANSFER OF SHARES

Subject to the approval of the securities authority of the State Council, holders of our Domestic Shares may transfer their Shares to overseas investors, and such transferred Shares may be listed or traded on an overseas stock exchange. Any listing or trading of the transferred Shares on an overseas stock exchange shall also comply with the regulatory procedures, rules and requirements of such overseas stock exchange.

The Shares held by the promoters may not be transferred within one (1) year of our incorporation.

The Directors, Supervisors and senior management shall report to our Company the number of Shares held by them as well as any changes in their Shareholdings. The number of Shares which a Director, Supervisor or senior management may transfer each year during his/her term of office may not exceed 25% of the total number of the Shares owned by them. The above personnel may not transfer the Shares held by them within six months after resignation.

All fully paid up Overseas Listed Foreign Shares listed in Hong Kong may be transferred freely pursuant to the Articles of Association. However, unless the Overseas Listed Foreign Shares listed in Hong Kong meet the following conditions, the Board of Director may refuse to recognise any transfer document without giving any reason:

- (i) any transfer documents and files related to stock ownership or may affect stock ownership are required registration, and one shall pay our Company registration fee of HK \$2.5 for each transfer document, or the higher cost determined by the Board, but such fees shall not exceed the maximum fees prescribed in Listing Rules of the Hong Kong Stock Exchange on occasion;
- (ii) the instrument of transfer relates only to Overseas Listed Foreign Shares listed in Hong Kong;
- (iii) payment in full of any stamp duty due on the instrument of transfer;
- (iv) provision of the relevant share certificates and any other evidence reasonably required by the Board to prove the transferor's right to make the transfer;
- (v) if the Shares are to be transferred to joint holders, the number of joint holders shall not exceed four;
- (vi) the relevant Shares of our Company are free from all liens.

If our Company refuses to register a transfer of any share, it shall, within two months after the date on which the formal application for transfer was lodged with our Company, send to the transferor and the transferee a notice of refusal to register the transfer of such share.

Any change or correction in each part of the register of Shareholders, shall, according to the laws and regulations of the city where the part of the register of Shareholders is kept.

Changes from Shares transfer may not be entered in the register of Shareholders thirty (30) days prior to the date of a general meeting or 5 days ahead the record date set for the purpose of distribution of dividends.

10. OUR COMPANY'S RIGHT TO PURCHASE ITS OWN SHARES

Our Company may, subject to the requirements of relevant laws, administrative regulations, the Listing Rules and the Articles of Association, and with the approval of the relevant governing authority of the State, repurchase its Shares under the following circumstances:

- (i) cancellation of Shares for the purposes of reducing the capital of our Company;
- (ii) merging with another company that holds Shares in our Company;

- (iii) awarding of Shares to the employees of our Company;
- (iv) objection of its Shareholders against the resolutions in relation to our Company's merger and division made at the general meeting and their request of acquisition of its Shares; or
- (v) other circumstances permitted by laws and administrative regulations.

The Shares repurchased by our Company according to clause (i), (ii) and (iv) of the preceding paragraph shall be cancelled or transferred within the period prescribed by the law and administrative regulations. As regards the cancelled Shares, our Company shall apply to the original company registration authority to register the change in registered capital and make an announcement accordingly. The Shares repurchased by our Company according to clause (iii) of the preceding paragraph shall not exceed 5% of its total issued Shares; the money used to acquire the Shares shall be paid from its profit after tax; and its acquired Shares shall be assigned to its employees within one year.

Our Company may repurchase Shares in one of the following ways, with the approval of the relevant governing authority of the State:

- (i) by making an offer for the repurchase of Shares to all its Shareholders on a pro rata basis;
- (ii) by repurchasing Shares through public dealing on a stock exchange;
- (iii) by repurchasing Shares outside of the stock exchange by means of an off-market agreement.

Our Company must obtain the prior approval of the Shareholders in a general meeting before it can repurchase Shares outside the stock exchange by means of an off-market agreement. Our Company may, by obtaining the prior approval of the Shareholders in a general meeting (in the same manner), rescind or vary any contract which has been so entered into or waive any right thereof. A contract for the repurchase of Shares referred to in the preceding paragraph includes (but not limited to) an agreement to become liable to repurchase Shares or an agreement to have the right to repurchase Shares.

Our Company shall not assign any contract for the repurchase of its Shares or any right contained in such agreement. Unless our Company is in the course of liquidation, it must comply with the following provisions in relation to repurchase of its outstanding Shares:

- (i) where our Company repurchases Shares at par value, payment shall be made out of the book surplus on the distributable profits of our Company or out of the proceeds of the new issue of Shares made for that purpose;

- (ii) where our Company repurchases Shares at a premium to its par value, payment equivalent to the par value may be made out of the book surplus on the distributable profits of our Company or out of the proceeds of the new issue of Shares made for that purpose. Payment of the portion in excess of the par value shall be effected as follows:
 - (a) if our Shares being repurchased were issued at par value, payment shall be made out of the book surplus on the distributable profits of our Company;
 - (b) if our Shares being repurchased were issued at a premium to its par value, payment shall be made out of the book surplus on the distributable profits of our Company or out of the proceeds of the new issue of Shares made for that purpose, provided that the amount paid out of the proceeds of the new issue shall not exceed the aggregate amount of premiums received by our Company on the issue of the Shares repurchased nor shall it exceed the book value of our Company's premium account or capital reserve fund account (inclusive of the premiums from the new issue) at the time of the repurchase;
- (iii) our Company shall make the following payments out of our Company's distributable profits:
 - (a) payment for the acquisition of the rights to repurchase our own Shares;
 - (b) payment for the variation of any contract to repurchase our own Shares;
 - (c) payment for the release of its obligation under any repurchase contract.
- (iv) after our Company's registered capital has been reduced by the total par value of the cancelled Shares in accordance with the relevant provisions, the amount reduced from the distributable profits for payment of the par value of Shares which have been repurchased shall be transferred to our Company's premium account or capital reserve fund account.

Where our Company has the rights to repurchase redeemable Shares: in case of a repurchase made other than through market or by tender, the price of which shall be limited at a maximum price; in case of a repurchase by tender, the tenders shall be made available to all Shareholders. Our Company shall not assign a contract to repurchase the Shares or any of the rights thereunder.

11. THERE ARE NO PROVISIONS IN THE ARTICLES OF ASSOCIATION PREVENTING OWNERSHIP OF SHARES IN OUR COMPANY BY A SUBSIDIARY.**12. DIVIDEND AND OTHER METHODS OF DISTRIBUTION**

Dividends shall be distributed by our Company in cash or share certificate.

The Shareholders are entitled to interest on the monies paid for any Shares before share capital is called for, simply their advances on subscription of Shares are not entitled to participate in the dividends subsequently declared.

Our Company shall appoint recipient agents for holders of Overseas Listed Foreign Shares to collect on behalf of the relevant Shareholders the dividends distributed and other funds payable in respect of Overseas Listed Foreign Shares by our Company, and to keep those monies for later payment to the related Shareholders.

The receiving agent appointed by our Company on behalf of holders of Overseas Listed Foreign Shares listed in the Hong Kong Stock Exchange shall be a company registered as a trust company under the Trustee Ordinance of Hong Kong.

The cash dividends and other amounts payable by our Company to the holders of Domestic Shares shall be paid in Renminbi. The cash dividends and other amounts payable by our Company to the holders of Overseas Listed Foreign Shares shall be denominated and declared in Renminbi and paid in Hong Kong dollars. The foreign currency required for the payment of cash dividends and other amounts by our Company to the holders of Overseas Listed Foreign Shares shall be arranged in accordance with the provisions of the PRC in relation to foreign exchange administration.

13. PROXIES OF SHAREHOLDERS

Any Shareholder entitled to attend and vote at a general meeting of our Company shall be entitled to appoint one or more persons (who need not be a Shareholder or Shareholders) as his/her proxies to attend general meetings and vote instead of him. A proxy so appointed shall enjoy the following rights pursuant to authorization by that Shareholder:

- (i) the Shareholders' right to speak at the general meeting;
- (ii) the right to demand or join in demanding a poll;
- (iii) the right to vote by hand or on a poll, but a proxy of a Shareholder who has appointed more than one proxy may only vote on a poll.

The appointment of a proxy by a Shareholder shall be in writing and signed by the appointer or his/her attorney duly authorised in written, or in the case of a legal person, shall be either affixed with its legal person seal or signed by a Director or a duly authorised attorney. The instrument appointing a proxy shall be deposited at our Company's domicile or at some

other place specified for that purpose in the notice of meeting no later than 24 hours prior to the meeting at which the proxy is authorised to vote or 24 hours before the time specified for the voting. Where such an instrument is signed by a person under power of attorney on behalf of the appointor, that power of attorney or other authorization documents shall be notarially certified. The notarially certified power of attorney and other authorization documents shall, together with the instrument appointing the proxy, be deposited at our Company's domicile or at some other place specified for that purpose in the notice of meeting.

If the appointor is a legal person, its legal representative or a person appointed by its Board or other decision-making body shall be entitled to attend a general meeting of our Company on behalf of the appointor as its proxy.

Any form issued to a Shareholder by the Board for use by him for appointing a proxy to attend and vote at a general meeting of our Company shall be such as to enable the Shareholder, according to his/her intention, to instruct the proxy to vote in favour of or against each resolution dealing with business to be transacted at the meeting. Such a form should contain a statement that in default of instructions the proxy may vote as he/she thinks fit.

A vote given in accordance with the terms of an instrument of proxy shall be valid notwithstanding the previous death or loss of capacity of the principal or revocation of the proxy or of the authority under which the proxy was executed, or the transfer of the share in respect of which the proxy is given, provided that no notice in writing of such death, loss of capacity, revocation or transfer shall have been received by our Company before the commencement of the meeting at which the proxy is used.

14. CAPITAL CALLS AND CONFISCATION OF SHARES

Any amount paid upon any Shares before a call is made shall bear interest thereon. However, the Shareholder is not entitled to any dividends of such pre-paid share capital declared subsequently.

Under the premise in pursuant to relevant PRC laws and regulations, our Company may exercise the right to forfeit unclaimed dividends, but that power shall not be exercised until or after 6 years from the declaration of dividend distribution.

15. INSPECTING THE REGISTER AND OTHER RIGHTS OF THE SHAREHOLDERS

Our Company shall keep a register of Shareholders.

Our Company may, in accordance with the mutual understanding and agreements made between the securities regulatory authorities of the State Council and overseas securities regulatory organizations maintain the register of holders of Overseas Listed Foreign Shares overseas and appoint overseas agents to manage such register of Shareholders.

The original register of holders of Overseas Listed Foreign Shares listed in Hong Kong shall be kept in Hong Kong. A duplicate register of Shareholders for the holders of Overseas Listed Foreign Shares shall be maintained at our Company's domicile. The appointed overseas agents shall ensure consistency between the original and the duplicate register of holders of Overseas Listed Foreign Shares at all times.

If there is any inconsistency between the original and the duplicate register of Shareholders for the holders of Overseas Listed Foreign Shares, the original register of Shareholders shall prevail.

Our Company shall have a complete register of Shareholders.

The register of Shareholders shall include:

- (i) the register of Shareholders maintained at our Company's domicile (other than those described in items (ii) and (iii) below);
- (ii) the register of holders of Overseas Listed Foreign Shares of our Company maintained at the place where the overseas securities exchange on which the Shares are listed is located; and
- (iii) the register of Shareholders maintained at such other place as our Board may consider necessary for the purpose of listing of our Shares.

Different parts of the register of Shareholders shall not overlap with one another. No transfer of the Shares registered in any part of the register shall, during the existence of that registration, be registered in any other part of the register of Shareholders. Alteration or rectification of each part of the register of Shareholders shall be made in accordance with the laws of the place where that part of the register of Shareholders is maintained.

Transfers may not be entered in the register of Shareholders within 30 days prior to the date of a general meeting or within 5 days before the record date set by our Company for the purpose of distribution of dividends.

When our Company intends to convene a general meeting, distribute dividends, liquidate and engage in other activities that involve determination of shareholdings, the Board shall designate a day to be the record day. Shareholders whose names appear in the register of Shareholders at the end of the record date are Shareholders of our Company.

Any person who objects to the register of Shareholders and requests to have his/her name (title) entered in or removed from the register of Shareholders may apply to a court of competent jurisdiction for rectification of the register.

Shareholders shall have the right to obtain relevant information, including, but no limited to:

- (i) the right to obtain a copy of the Articles of Association, subject to payment of costs;
- (ii) the right to inspect and copy, subject to payment of a reasonable fee:
 - (a) all parts of the register of Shareholders;
 - (b) personal particulars of each of our Company's Directors, Supervisors, general manager and other senior management;
- (iii) our Company's equity position;
- (iv) since the prior financial year, the par value of each class of Shares repurchased by our Company, its quantity, the highest price and lowest price, and the report of all cost paid by our Company;
- (v) minutes of the general meetings; resolutions of the general meetings; resolutions of the Board meetings; and resolutions of the meetings of the Supervisory Committee;
- (vi) counterfoils of our Company's bonds;
- (vii) the latest audited financial report, the report of the Board, auditor's report and the report of the Supervisory Committee; and
- (viii) copy of the latest annual return filed with the administration for industry and commerce or other authorities of the PRC.

Our Company shall make the above documents available at our Company's domicile and place of business in Hong Kong for inspection by shareholders.

16. QUORUM OF GENERAL MEETINGS

If the number of Shares carrying voting rights represented by the Shareholders intending to attend a meeting exceeds one half of the total number of Shares carrying voting rights, our Company may convene the general meeting.

If the number of a class of Shares carrying voting rights represented by the Shareholders intending to attend a meeting exceeds one half of the total number of such class of Shares carrying voting rights, our Company may convene the class meeting.

17. MINORITY SHAREHOLDERS' RIGHTS IN CASE OF A FRAUD OR OPPRESSION

In addition to the obligations imposed by laws and administrative regulations or required by the listing rules of the stock exchange on which our Company's Shares are listed, a Controlling Shareholder shall not exercise his/her voting rights in respect of the following matters in a manner prejudicial to the interests of all or part of the Shareholders of our Company:

- (i) to remove the responsibilities of a Director or Supervisor to act honestly in the best interests of our Company;
- (ii) To approve the expropriation by a Director or Supervisor (for his/her own benefit or for the benefit of another person), in any guise, of our Company's assets, including (but not limited to) opportunities beneficial to our Company; or
- (iii) To approve the expropriation by a Director or Supervisor (for his/her own benefit or for the benefit of another person) of the individual rights of other Shareholders, including (but not limited to) distribution rights and voting rights, save for the restructuring of our Company submitted to the general meeting for approval in accordance with the Articles of Association.

18 PROCESS OF DISSOLUTION AND LIQUIDATION

Our Company will be dissolved for the following reasons:

- (i) A resolution for dissolution is passed by Shareholders at a general meeting;
- (ii) Dissolution is necessary due to a merger or division of our Company;
- (iii) Our Company's business license is cancelled or it is ordered to shut down or to be dissolved according to the laws;
- (iv) Our Company is ordered to dissolve due to its violation of laws and regulations; and
- (v) Where our Company encounters significant difficulties in business and management, continuous survival will be significantly detrimental to the interests of Shareholders, and the difficulties may not be overcome through other means, Shareholders who hold more than 10% of the Shares carrying voting rights may request a People's court to dissolve our Company.

Where our Company is to be dissolved pursuant to items (i), (iii) or (v) of the preceding Article, the liquidation committee shall be formed within 15 days from the occurrence of dissolution to commence liquidation. The composition of such liquidation committee shall be determined by the Directors or the general meeting. If no liquidation committee is formed within the time limit, the creditors may petition to the People's Court to appoint relevant parties to form a liquidation committee to conduct the liquidation.

If the Board decides to liquidate our Company (except where our Company is liquidated after declaring bankruptcy), the Board shall state in the notice of the general meeting convened for this purpose that the Board has performed a comprehensive investigation of the status of our Company and believes that our Company is able to pay off all of our debts within 12 months of the start of liquidation.

Upon the passing of the resolution by Shareholders in the general meeting for the liquidation of our Company, all duties and powers of the Board shall terminate immediately.

The liquidation committee shall act in accordance with the instructions of the general meeting to make a report at least once every year to the general meeting on the committee's income and expenses, the businesses of our Company and the progress of the liquidation and to present a final report to the general meeting on the completion of the liquidation.

The liquidation committee shall notify all creditors within 10 days after its establishment and shall make announcements in newspapers within 60 days.

In claiming their rights, the creditors shall provide a statement and evidence with respect thereof. The liquidation committee shall register creditor's rights.

During the liquidation period, the liquidation committee shall exercise the following functions and powers:

- (i) To categorise our Company's assets and prepare a balance sheet and an inventory of assets respectively;
- (ii) To notify the creditors or to publish public announcements;
- (iii) To dispose of and liquidate any pending businesses of our Company;
- (iv) To pay outstanding taxes and the taxes arising during the process of liquidation;
- (v) To settle claims and debts;
- (vi) To deal with the surplus assets remaining after repayment by our Company of debts;
and
- (vii) To represent our Company in any civil proceedings.

After it has categorised our Company's assets and after it has prepared the balance sheet and an inventory of assets, the liquidation committee shall formulate a liquidation plan and present it to a general meeting or to the relevant competent authority for confirmation.

The liquidation committee shall immediately apply to the people's court for a declaration of bankruptcy if it becomes aware, having liquidated our Company's assets and prepared a balance sheet and an inventory of assets, that our Company's assets are insufficient to repay its debts in full. Upon our Company being declared bankrupt by a ruling of the people's court, the liquidation committee shall transfer to the people's court all matters arising out of the liquidation.

Following the completion of the liquidation, the liquidation committee shall prepare a liquidation report, a statement of income and expenses received and made during the liquidation period and a financial report, which shall be verified by a Chinese certified public accountant and submitted to the general meeting or the relevant competent authority for confirmation. The liquidation committee shall, within 30 days after the confirmation by the general meeting or the relevant competent authority, submit the documents referred to in the preceding paragraph to the registration authority and apply for cancellation of registration of our Company, and publish a public announcement relating to the termination of our Company.

19. OTHER IMPORTANT PROVISIONS FOR OUR COMPANY OR THE SHAREHOLDERS

(a) General provisions

Our Company is a permanently existing joint stock limited company.

Our Company may invest in other limited liability companies and joint stock limited companies, and its responsibility to such companies shall be limited to its invested amount. Our Company shall not bear several and joint liabilities for the debts of the companies invested, except as otherwise specified by laws.

The Article of Association constitute a legal document regulating the relationship between our Company and each of its Shareholders and among the Shareholders interest, actionable by a Shareholder against our Company and vice versa and by Shareholders against each other in respect of rights and obligations concerning the affairs of our Company arising out of the Articles of Association. The Shareholders may also bring actions against the Directors, Supervisors, general manager and other senior management of our Company. For the purposes of the Articles of Association, actions include court proceedings and arbitration proceedings.

(b) Shares and transfers

Foreign investors referred to in the Article of Association mean those investors of foreign countries and regions of Hong Kong, Macau and Taiwan who subscribe for Shares issued by our Company; domestic investors referred to in the preceding paragraph mean those investors within the territory of the PRC (excluding investors of the regions referred to in the preceding sentence) who subscribe for Shares issued by our Company.

Our Company may increase stock capital by the following means:

- (i) To offer new Shares to unspecified investors;
- (ii) To place new Shares with existing Shareholders;
- (iii) To allot bonus Shares to its existing Shareholders;
- (iv) To issue new Shares to particular investors;
- (v) To convert the reserves into share capital; or
- (vi) any other ways permitted by the laws, administrative regulations and relevant regulatory authorities.

Our Company's increase of capital by issuing new Shares shall, after being approved in accordance with the provisions of the Articles of Association, be conducted in accordance with the procedures stipulated by the relevant laws and administrative regulations of the State.

Our Company may reduce its registered capital in accordance with the provisions of the Company Law, other regulations and the Articles of Association.

When our Company reduces its registered capital, it shall prepare a balance sheet and an inventory of assets.

Subject to the approval of the securities authority of the State Council, holders of our Domestic Shares may transfer their Shares to overseas investors, and such transferred shares may be listed or traded on an overseas stock exchange. Any listing or trading of the transferred shares on an overseas stock exchange, shall also comply with the regulatory procedures, rules and requirements of such overseas stock exchange.

(c) Shareholders

A Shareholder of our Company is a person who lawfully holds Shares and has his/her name (titles) recorded on the register of Shareholders.

A Shareholder enjoys rights, and is subject to obligations, according to the class and number of Shares he/she holds. Holders of the same class of Shares enjoy the same rights and subject to the same obligations.

The ordinary Shareholder of our Company shall enjoy the following rights:

- (i) To receive dividends and other distributions in proportion to the number of Shares held;
- (ii) To legally request, convene, chair, attend or appoint a proxy to attend the general meetings and to exercise the voting right thereat;
- (iii) To supervise and manage our business and operational activities, provide suggestions or submit queries;
- (iv) To transfer, giving for free or making liens of Shares in accordance with the laws, administrative regulations and the Articles of Association;
- (v) To obtain relevant information in accordance with the provisions of the Articles of Association;
- (vi) To participate in the distribution of the remaining assets of our Company in proportion to the number of Shares held upon our termination or liquidation;
- (vii) To require our Company to buy back Shares when holding qualifications toward resolutions in respect of mergers or separation;
- (viii) To entitle Shareholders holding, individually or in aggregate, more than 3% of Shares of our Company to propose additional resolution in writing to the Board 10 days before the general meeting; and
- (ix) other rights conferred by laws, administrative regulations, departmental rules and the Articles of Association.

Our Company shall not freeze or otherwise impair any of the rights attaching to any share by reason only that the person or persons who are interested directly or indirectly therein have failed to disclose their interests to our Company.

Share certificates of our Company shall be in registered form.

Share certificates of our Company shall be signed by the Chairman of the Board of our Company. Where the stock exchanges on which Shares are listed require the share certificates to be signed by senior management of our Company, the share certificates shall also be signed by such senior management. The share certificates shall take effect after being affixed with our

Company's seal or a machine-imprinted seal of our Company provided that such seal shall only be affixed with the authority of the Board. The signatures of the Chairman of the Board or other senior management of our Company on the Share certificates may be printed in mechanical form.

Any person who is registered Shareholder or who requests to have his/her name (title) entered into the register of Shareholders may, if his/her share certificate (the "**original certificate**") in respect of shares in our Company is lost, apply to our Company for a replacement new share certificate in respect of such shares (the "**Relevant Shares**").

If a holder of Domestic Shares loses his/her share certificate and applies for a replacement new share certificate, it shall be dealt with in accordance with relevant provisions of the Company Law. If a Shareholder of Foreign Shares listed in Hong Kong loses his/her share certificate and applies for a replacement new share certificate, the issue of such certificate shall comply with the following requirements:

- (i) The applicant shall submit an application to our Company in the form prescribed by our Company accompanied by a notarial certificate or a statutory declaration stating the grounds upon which the application is made and the circumstances and evidence of the loss of the original certificate and declaring that no other person is entitled to be registered as a Shareholder in respect of the Relevant Shares.
- (ii) Before our Company decides to issue the replacement new share certificate, no statement made by any person other than the applicant declaring that he shall be registered as a Shareholder in respect of the Relevant Shares has been received.
- (iii) Our Company shall, if it decides to issue a replacement new share certificate to the applicant, make an announcement of its decision at least once every 30 days for a period of 90 days in such newspapers as may be designated by the Board. The newspaper designated by the Board should be a Chinese and an English newspaper (at least one of each) recognised by the Hong Kong Stock Exchange.
- (iv) Before our Company publishes the announcement of the reissuance of a share certificate, a copy of the announcement intended to be published shall be submitted to the Hong Kong Stock Exchange. Upon the receipt of response from such stock exchange that confirms that such announcement has been exhibited in the premises of the Hong Kong Stock Exchange, the announcement may be published. Such announcement shall be exhibited in the premises of the Hong Kong Stock Exchange for a period of 90 days. If the application for the replacement of share certificate is made without the consent of the registered holder of the Relevant Shares, our Company shall deliver a copy of the announcement intended to be published to such Shareholder by post.

- (v) If, by the expiration of the 90-day period referred to in above (iii) and (iv), our Company shall not have received from any person notice of any disagreement to such application, our Company may issue a replacement new share certificate to the applicant accordingly.
- (vi) Where our Company issues a replacement new share certificate under the Articles of Association, it shall forthwith cancel the original share certificate and enter the cancellation and replacement issue in the register of Shareholders accordingly.
- (vii) All expenses relating to the cancellation of an original share certificate and the issue of a replacement new share certificate by our Company shall be borne by the applicant. Our Company may refuse to take any action until reasonable security is provided by the applicant for such expenses.

(d) Shareholders untraceable

Our Company may exercise power to cease sending dividend warrants by post to a holder of foreign shares listed overseas when such warrants have not be cashed twice in a row. However, such power may be exercised after the first occasion on which such a warrant is returned undelivered.

Our Company is entitled to sell, in such manner as the Board thinks fit, any shares of a holder of foreign shares listed overseas who is untraceable, subject to and conditional upon:

- (i) During a period of 12 years at least three dividends in respect of the shares in question have become payable and no dividend during that period has been claimed; and
- (ii) Our Company shall, upon the expiry of the 12 years, give notice of its intention to sell the shares by way of an advertisement published in the newspapers and notifies the Hong Kong Stock Exchange of such intention.

(e) The Board

The Board shall exercise the following functions and powers:

- (i) To convene the general meeting and report on its work to the Shareholders;
- (ii) To implement the resolutions of the general meeting;
- (iii) To decide on our Company's business plans, investment plans, detailed annual business objectives, and financing plans other than by ways of issue of corporate bonds or other securities and of listing;
- (iv) To formulate our Company's proposed annual financial budget and final accounts;

- (v) To formulate our Company's profit distribution plan and plan for making up for losses;
- (vi) To formulate proposals for the increase or reduction of our Company's registered capital, and plans for the issue of corporate bonds or other securities and the listing plan;
- (vii) To draw up plans for material assets acquisition or disposal, purchase of our Company's shares, or merger, demerger, dissolution or change of the form of our Company;
- (viii) To decide on the establishment of our Company's internal management organization;
- (ix) To appoint or remove our Company's general manager and secretary of the Board; to appoint or remove other senior management pursuant to the general manager's nominations, and to determine the abovementioned matters relating to the remuneration, incentives and punishments of the senior management;
- (x) To decide on the proposals for salaries, incentives and punishments of our Company's staff;
- (xi) To approve the appointment or replacement of Directors and Supervisors representing Shareholders of our Company's wholly-owned subsidiaries, appointment, replacement or recommendation of Shareholder representatives, Directors (candidates) and Supervisors representing Shareholders of our Company's subsidiaries and investees.
- (xii) To formulate our Company's basic management system;
- (xiii) To propose plans for the amendment to the Articles of Association of our Company;
- (xiv) To determine the establishment of our Company's domestic or overseas branches;
- (xv) To decide on the matters such as merger, division, reorganization or dissolution of our Company's wholly-owned subsidiaries and subsidiaries;
- (xvi) To decide on the establishment of special committees under the Board and to appoint or remove its person-in-charge;
- (xvii) To propose at the general meetings a resolution in respect of candidates for independent Directors and replacement of independent Directors;
- (xviii) To propose at the general meetings for the appointment, renewal or remove of accountants' firm conducting auditing for our Company;

- (xix) To hear the work report and inspect the work of the general manager;
- (xx) To manage information disclosure of our Company;
- (xxi) To formulate the equity incentives plan;
- (xxii) Save as otherwise required to be decided by the general meetings under laws and regulations and the Articles of Association, the Board exercises its power to make decisions on external investments (including capital increase and equity transfer of the invested enterprises), financing, risk management and trust management, external guarantees, etc.;
- (xxiii) To establish and review our Company's corporate governance policies and codes;
- (xxiv) To review and supervise the training and sustained professional development of our Company's Directors, Supervisors and senior management;
- (xxv) To review and supervise our Company's policies and codes in connection with compliance with laws and regulatory requirements;
- (xxvi) To establish, review and supervise the codes of conduct and compliance handbook (if any) applicable to Directors and employees;
- (xxvii) To review our Company's compliance with the Code on Corporate Governance Practices and the disclosures made in the Corporate Governance Report;
- (xxviii) To decide on other major affairs of our Company, save for matters to be resolved at the general meetings as required by the Company Law and the Articles of Association;
- (xxix) To exercise other functions and powers as granted by the Articles of Association or the general meetings of our Company;
- (xxx) To conduct other matters as required by PRC laws and regulations.

Except for the matters specified in items (vi), (vii) and (xiii) which shall be passed by two-thirds or more of the Directors, the resolutions of the Board in respect of any other aforesaid matters may be passed by half or more of all Directors. Resolutions in respect of connected transactions made by the Board shall not come into force unless it is signed by independent Directors.

Board meetings shall be held regularly at least forth in each year and shall be convened by the Chairman of the Board.

If a Director is unable to attend a Board Meeting, he/she may appoint another Director by a written power of attorney to attend on his/her behalf. Such a power of attorney shall specify the scope of authorization.

Directors attending Board meetings shall exercise their powers as Directors within their scope of authorization. If a Director fails to attend a Board Meeting and does not appoint an attorney to attend, the Director is deemed to have relinquished his/her rights to vote at that meeting.

Each Director shall have one vote. Unless specified otherwise in the laws, administrative regulations or the Articles of Association, resolutions of the Board must be passed by more than half of all the Directors. Where the number of votes cast for and against a resolution is equal, the Chairman shall have the right to cast an additional vote.

(f) Independent Directors

Our Company shall establish a Board. The Board shall comprise 12 Directors, including 4 independent Directors. Independent directors may report the relevant state of affairs directly to the Shareholders' general meeting, the securities regulatory authorities of the State Council and other relevant departments.

(g) Secretary of the Board

Our Company shall have a secretary of the Board. The secretary of the Board is a member of the senior management of our Company. The secretary of the Board of our Company shall be a natural person with the requisite professional knowledge and experience, and shall be nominated by the chairman and appointed or removed by the Board.

(h) Supervisory Committee

Our Company shall have a Supervisory committee.

The Supervisory Committee shall be composed of six members, including two representatives appointed by our Shareholders, two representatives elected by our employees and two independent Supervisors, one of these six Supervisors shall be the chairman of the Supervisory Committee.

The election or removal of the chairman of the Supervisory Committee shall be decided by two-thirds or more of the Supervisors. Decisions of the Supervisory Committee shall be made by the affirmative vote of two-thirds or more of the Supervisors.

The terms of office of Supervisors shall be three years, renewable upon re-election.

Directors and other senior management of our Company shall not concurrently act as Supervisors. The Supervisory Committee shall be responsible for the general meetings and exercise the following functions and powers:

- (i) To supervise the Directors and other senior management if they violate the laws, administrative regulations or the Articles of Association in the execution of their duties, and to propose removal of any Directors and senior management who violate the laws, administrative regulations, the Articles of Association of our Company or any resolutions passed at the general meetings;
- (ii) To demand rectification from a Director and other senior management when the acts of such persons prejudice our Company's interest;
- (iii) To examine our Company's financial accounts;
- (iv) To propose to convene an extraordinary general meeting and to convene and preside over the general meetings when the Board fails to perform its duties of convening and presiding over the general meetings under the Company Law;
- (v) To put forth proposals at the general meetings;
- (vi) To propose to convene an extraordinary Board meeting;
- (vii) To bring an action against a Director and senior management in accordance with Article 151 of the Company Law;
- (viii) To exercise other functions and powers specified in the laws, administrative regulations and the Articles of Association.

Supervisors shall be present at Board meetings.

(i) **General manager**

The Company shall have one general manager, who shall be appointed and removed by the Board. The general manager shall be accountable to the Board and exercise the following functions and powers:

- (i) To lead the production, operation and management of our Company, and report his/her works to the Board;
- (ii) To organise the implementation of the resolutions of the Board, our Company's annual business plans and investment plans;
- (iii) To prepare the Company's annual budgets and final accounts, and to provide recommendations to the Board;

- (iv) To prepare plans for the establishment of our Company's basic management system and the internal management structure;
- (v) To formulate the specific rules and regulations of our Company;
- (vi) To propose to the Board on the appointment or removal of other senior management of our Company;
- (vii) To appoint or remove the management personnel, except for those who shall be appointed or removed by the Board;
- (viii) To propose to convene an extraordinary Board Meeting in case of emergency;
- (ix) To decide on investment, financing, contracts and transactions of our Company within the scope of authorization of the Board;
- (x) To exercise other functions and powers conferred by the Articles of Association and the Board.

(j) **Reserves**

When distributing the after-tax profits of the current year, our Company shall allocate 10% of its profits into its statutory reserve. When the cumulated amount of the statutory reserve of our Company has reached 50% or more of its registered capital, no further allocations is required.

Where the statutory reserve of our Company is insufficient to make up for the losses of our Company incurred during the previous years, before making allocation to the statutory reserve in accordance with the preceding paragraph, the profits generated during the current year shall be used to make up for such losses.

After allocation of statutory reserve fund from its after-tax profits, our Company may also make appropriations to its discretionary reserve fund from such remaining profits by resolutions of the general meetings.

The remaining after-tax profits after being used to make up for losses and allocated to reserve are available for distribution by our Company to its Shareholders in proportion of their shareholdings in accordance with the resolution of the general meetings.

If the Shareholders' general meeting has, in violation of the provisions of the preceding paragraphs, distributed profits to the Shareholders before our Company has made up for its losses and made allocations to the statutory reserve, the Shareholders must return the profits distributed in violation of the provision to our Company.

No profits shall be distributed in respect of the shares held by our Company.

(k) Settlement of disputes

Our Company shall adopt the following rules in dispute resolution:

- (i) Any dispute or claim of rights relating to the affairs of our Company and arising between holders of Overseas Listed Foreign Shares and our Company, or between holders of Overseas Listed Foreign Shares and Directors, Supervisors or any other senior management of our Company, or between holders of Overseas Listed Foreign Shares and holders of Domestic Shares, and arising as a result of the rights and obligations provided for in the Articles of Association, the Company Law, and relevant laws and administrative regulations, shall be referred to arbitration by the parties involved.

Where a dispute or claim of rights referred to in the preceding paragraph is referred to arbitration, the entire claim or dispute must be referred to arbitration, and all persons who have a cause of action based on the same facts giving rise to the dispute or claim or whose participation is necessary for the resolution of such dispute or claim, where the persons being our Company or the Shareholders, directors, Supervisors or any other senior management of our Company, shall comply with the arbitration.

Disputes in respect of the definition of Shareholders and disputes in relation to the register of members need not be resolved by arbitration.

- (ii) A claimant may elect for arbitration to be carried out at either the China International Economic and Trade Arbitration Commission in accordance with its arbitration rules or the Hong Kong International Arbitration Center in accordance with its securities arbitration rules. Once a claimant refers a dispute or claim to arbitration, the other party must submit to the arbitral body elected by the claimant.

If the claimant elects for arbitration to be carried out at the Hong Kong International Arbitration Center, any party may request the arbitration to be conducted in Shenzhen in accordance with the securities arbitration rules of the Hong Kong International Arbitration Center.

- (iii) The resolution of any dispute or claim of rights referred to in paragraph (i) above by arbitration is subject to the laws of the PRC (excluding the Hong Kong Special Administrative Region, the Macau Special Administrative Region and Taiwan), unless otherwise required by laws and administrative regulations.
- (iv) An arbitral award made by the arbitral body is final and binding on the parties.

A. FURTHER INFORMATION ABOUT OUR COMPANY**1. Incorporation**

Yunnan Water Co., our predecessor was established on 21 June 2011 as a limited liability company in the PRC. Our Company was converted from such predecessor to a joint stock limited company under the PRC laws on 22 July 2014. We have established a principal place of business in Hong Kong at Suite 5007, 50/F, Central Plaza, 18 Harbour Road, Wan Chai, Hong Kong and were registered with the Hong Kong Companies Registry as a non-Hong Kong company under Part XVI of the Companies Ordinance on 8 December 2014. Ms. Tai Hang Fa has been appointed as our agent for the acceptance of service of process and notices on behalf of our Company in Hong Kong.

As our Company was incorporated in the PRC, we are subject to the relevant laws and regulations of the PRC and our Articles of Association. A summary of the relevant aspects of PRC laws and regulations is set out in “Appendix III — Summary of Principal Legal and Regulatory Provisions”. A summary of our Articles of Association is set out in “Appendix IV — Summary of Articles of Association”.

2. Changes in the share capital of our Company

When our predecessor, Yunnan Water Co. was established, the initial registered capital was RMB600 million, among which RMB306 million was contributed by Yunnan Province Water by contributing its 29 subsidiaries and joint venture companies into Yunnan Water Co. and RMB294 million was contributed by Beijing OriginWater in cash, which was fully paid up.

On 29 October 2012, the registered share capital of Yunnan Water Co. was increased to RMB650 million, of which RMB25.5 million was contributed by Yunnan Province Water in cash and RMB24.5 million was contributed by Beijing OriginWater by contributing its 50% interest in OriginWater Technology, which was fully paid up.

On 23 July 2013, the registered share capital of Yunnan Water Co. was increased to RMB787.88 million. The increased capital was contributed by Finergy Development in cash, which was fully paid up.

APPENDIX V**STATUTORY AND GENERAL INFORMATION**

On 22 July 2014, Yunnan Water Co. was converted into a joint stock limited company under the PRC laws and renamed as Yunnan Water Investment Co. Limited (雲南水務投資股份有限公司). Immediately following such conversion, our Company's registered share capital was RMB787.88 million, divided into 787,880,000 Domestic Shares with nominal value of RMB1.00 each, all of which were fully paid up and were held as follows:

Name	Number of Domestic Shares	Percentage of Shareholding (%)
Yunnan Province Water	331,500,000	42.07
Beijing OriginWater	286,650,000	36.38
Finergy Development	137,880,000	17.50
30 Management Shareholders	31,850,000	4.04
Total	<u>787,880,000</u>	<u>100</u>

On 16 September 2014, the registered share capital of our Company was increased to RMB862,564,457, divided into 862,564,457 Domestic Shares with nominal value of RMB1.00 each, all of which were fully paid up and were held as follows:

Name	Number of Domestic Shares held	Percentage of Shareholding (%)
Yunnan Province Water	391,822,062	45.43
Beijing OriginWater	286,650,000	33.23
Finergy Development	137,880,000	15.98
Hangzhou Qingyu	5,744,958	0.666
Sichuan Rongchen	8,617,437	0.999
30 Management Shareholders	31,850,000	3.69
Total	<u>862,564,457</u>	<u>100</u>

Immediately upon completion of the Global Offering (assuming the Over-allotment Option is not exercised), the registered capital of our Company will be RMB1,150,085,457, comprising 833,812,357 Domestic Shares and 316,273,100 H Shares (including 28,752,100 H Shares converted from Domestic Shares pursuant to the relevant PRC laws relating to reduction of State-owned shares and sold for the benefit of the NSSF), with nominal value of RMB1.00 each, representing approximately 72.50% and 27.50% of the total capital, respectively.

Immediately upon completion of the Global Offering (assuming the Over-allotment Option is fully exercised), the registered capital of our Company will be RMB1,193,213,457, comprising 829,499,557 Domestic Shares and 363,713,900 H Shares (including 33,064,900 H Shares converted from Domestic Shares pursuant to the relevant PRC laws relating to

reduction of State-owned shares and sold for the benefit of the NSSF), with nominal value of RMB1.00 each, representing approximately 72.29% and 27.71% of the total capital, respectively.

Save as disclosed in this Appendix, there has been no alteration in the share capital of our Company since its incorporation.

3. Changes in the share capital of our subsidiaries

A list of our subsidiaries as at the date of this prospectus is set out in the Accountant's Report as included in Appendix I to this prospectus. The following sets out the alterations in the registered capital of our subsidiaries that took place within two years preceding the date of this prospectus.

(i) Wuxi Zhongfa Water

The registered capital of Wuxi Zhongfa Water, our 75% owned subsidiary, was increased from RMB30 million to RMB134 million on 26 May 2014.

(ii) Dali Water

The registered capital of Dali Water, our direct wholly-owned subsidiary, was increased from RMB36.9 million to RMB200 million following the capitalisation of its surplus reserve and undistributed profit into registered capital on 30 April 2014.

Save as disclosed in this prospectus, there had been no other alteration in the share capital of any of the subsidiaries of our Company within two years preceding the date of this prospectus.

4. Restrictions on Share Repurchase

For details of the restrictions on share repurchase by our Company, see "Appendix IV — Summary of Articles of Association — Our Company's Right to Purchase Its Own Shares".

5. Resolutions passed at our extraordinary general meeting on 16 September 2014

At our extraordinary general meeting held on 16 September 2014, among other things, the following resolutions were passed by the Shareholders:

- (a) approving the issue of the H Shares by the Company and the Listing, whereby the number of H Shares to be issued by our Company (assuming the Over-allotment Option is not exercised) shall not exceed 287,540,000 H Shares (without regard to the H Shares converted from state-owned Shares for the transfer to NSSF), representing approximately 25% of the total number of Shares after Listing; the Offer Price of the H Shares will be determined by our Company and the Sole Global Coordinator in accordance with the results of roadshow and bookkeeping; upon the

approval of the relevant PRC regulatory authorities, the state-owned Shareholders of our Company will transfer to NSSF such number of Domestic Shares as in aggregate would be equivalent to 10% of the number of the Offer Shares (such number of Offer Shares will be increased if the Over-allotment Option is fully exercised);

- (b) subject to completion of the Global Offering, the conditional adoption of the Articles of Association which shall become effective on the Listing Date, and the authorisation to the Board to amend the Articles of Association in accordance with the relevant laws and regulations, the Listing Rules and the requirements by the relevant regulatory and approval authorities in accordance with the relevant laws and regulations as well as discretionary amendments to the wordings and contents therein; and
- (c) approving the Board to handle all matters relating to the issue of the H Shares and the Listing.

6. Reorganisation

We underwent the Reorganisation, details of which are set out in “History, Reorganisation and Corporate Structure”. As confirmed by Jia Yuan Law Offices, our PRC legal advisers, we have obtained all relevant approvals from, and have duly filed with, the relevant PRC government authorities with respect to the Reorganisation. The Reorganisation complies with all relevant applicable laws, rules and regulations in the PRC.

7. Our principal subsidiaries

For further details on our principal subsidiaries, see “History, Reorganisation and Corporate Structure” and the Accountant’s Report.

B. FURTHER INFORMATION ABOUT OUR BUSINESS

1. Summary of material contracts

We have entered into the following contracts (not being contracts entered into in the ordinary course of business) within two years immediately preceding the date of this prospectus that are or may be material:

- (a) the capital increase agreement dated 15 June 2013 entered into among Yunnan Province Water, Beijing OriginWater, Yunnan Water Co., the 29 Management Shareholders and Finergy Development in respect of the total investment of RMB400.0 million by Finergy Development into Yunnan Water Co., of which RMB137,880,000 was made towards the registered capital of Yunnan Water Co., representing 17.5% of the enlarged registered capital of Yunnan Water Co., further details of which are set out in “History, Reorganisation and Corporate Structure”;

- (b) the shareholders agreement dated 15 June 2013 entered into among Yunnan Province Water, Beijing OriginWater, Yunnan Water Co., the 29 Management Shareholders and Finergy Development in respect of Finergy Development's capital contribution of RMB137,880,000 in Yunnan Water Co., as supplemented by a supplemental agreement dated 30 June 2014, further details of which are set out in "History, Reorganisation and Corporate Structure";
- (c) the agreement dated 15 June 2013 entered into among YMCI, Yunnan Province Water and Finergy Development in respect of the increase in registered capital of Yunnan Water Co., by RMB137,880,000 as supplemented by a supplemental agreement dated 30 June 2014, further details of which are set out in "History, Reorganisation and Corporate Structure";
- (d) the capital increase agreement dated 23 July 2014 entered into among our Company, Yunnan Province Water, Beijing OriginWater, the 30 Management Shareholders, Finergy Development, Hangzhou Qingyu and Sichuan Rongchen, in respect of the capital increase of RMB210.0 million, RMB20.0 million and RMB30.0 million, respectively by Yunnan Province Water, Hangzhou Qingyu and Sichuan Rongchen into our Company (of which RMB60,322,062, RMB5,744,958 and RMB8,617,437, respectively, was made towards the registered capital of our Company while the rest was contributed towards the capital surplus account of our Company) to acquire 3.3504%, 0.666% and 0.999%, respectively, of the enlarged registered capital of our Company, further details of which are set out in "History, Reorganisation and Corporate Structure";
- (e) the shareholders agreement dated 23 July 2014 entered into among our Company, Yunnan Province Water, Beijing OriginWater, the 30 Management Shareholders, Finergy Development, Hangzhou Qingyu and Sichuan Rongchen, in respect of the capital contribution made by Yunnan Province Water, Hangzhou Qingyu and Sichuan Rongchen pursuant to the capital increase agreement set out in paragraph (d) above, further details of which are set out in "History, Reorganisation and Corporate Structure";
- (f) the agreement dated 23 July 2014 entered into among YMCI, Yunnan Province Water, Hangzhou Qingyu and Sichuan Rongchen, in respect of the capital increase of RMB260.0 million by Yunnan Province Water, Hangzhou Qingyu and Sichuan Rongchen to acquire 3.3504%, 0.666% and 0.999%, respectively, of the enlarged registered capital of our Company, further details of which are set out in "History, Reorganisation and Corporate Structure";
- (g) the Share Entrustment Agreement dated 3 December 2014 entered into between our Company, YMCI, and Yunnan Province Water, pursuant to which YMCI and Yunnan Province Water entrusted 100% shareholding interest in Circular Economy to our Company, further details of which are set out in "Connected Transactions";
- (h) the Non-competition Agreements, further details of which are set out in "Relationship with the Controlling Shareholders";
- (i) the Non-competition Undertaking, further details of which are set out in "Relationship with the Controlling Shareholders";

- (j) the indemnity undertaking dated 6 May 2015 provided by Yunnan Province Water in favour of our Company in respect of any losses or expenses which may be incurred by us as a result of the non-compliance and title defects disclosed in this prospectus, further details of which are set out in “Business”;
- (k) the indemnity undertaking dated 6 May 2015 provided by Beijing OriginWater in favour of our Company in respect of any losses or expenses which may be incurred by us as a result of the non-compliance and title defects disclosed in this prospectus, further details of which are set out in “Business”;
- (l) the cornerstone investment agreement dated 8 May 2015 entered into among our Company, CC Investment and the Sole Global Coordinator, pursuant to which CC Investment has agreed to purchase H Shares with an amount up to US\$10.0 million;
- (m) the cornerstone investment agreement dated 8 May 2015 entered into among our Company, NI Investment and the Sole Global Coordinator, pursuant to which NI Investment has agreed to purchase H Shares with an amount up to US\$10.0 million;
- (n) the cornerstone investment agreement dated 8 May 2015 entered into among our Company, Beibu Gulf Fund and the Sole Global Coordinator, pursuant to which Beibu Gulf Fund has agreed to purchase H Shares with an amount up to US\$8.0 million;
- (o) the cornerstone investment agreement dated 8 May 2015 entered into among our Company, Dragonfair and the Sole Global Coordinator, pursuant to which Dragonfair has agreed to purchase H Shares with an amount up to US\$30.0 million;
- (p) the cornerstone investment agreement dated 8 May 2015 entered into among our Company, Value Partners HK and the Sole Global Coordinator, pursuant to which Value Partners HK has agreed to purchase H Shares with an amount up to US\$12.0 million;
- (q) the cornerstone investment agreement dated 8 May 2015 entered into among our Company, CI Investment and the Sole Global Coordinator, pursuant to which CI Investment has agreed to purchase H Shares with an amount up to US\$5.0 million;
- (r) the Hong Kong Underwriting Agreement, details of which are set out in “Underwriting — Hong Kong Underwriting Arrangements — Hong Kong Public Offering — Hong Kong Underwriting Agreement”.

2. Intellectual property rights

As at the Latest Practicable Date, we had registered or had applied for the registration of the following intellectual property rights, which are material to our business:

(a) Trademarks

As at the Latest Practicable Date, we had filed application for the following trademarks, which are material to our business.

Trademark	Applicant	Application No.	Place of Application	Class	Application Date
	Yunnan Water Co.	15027899	PRC	11	30 July 2014
		15027973	PRC	39	30 July 2014
		15027963	PRC	40	30 July 2014
		15027990	PRC	42	30 July 2014
雲水股份	Yunnan Water Co.	15027903	PRC	11	30 July 2014
		15027987	PRC	39	30 July 2014
		15028036	PRC	40	30 July 2014
(A)  YUNNAN WATER	Our Company	303108122	Hong Kong	37, 39, 40	20 August 2014
(B)  YUNNAN WATER					
(A)  雲南水務	Our Company	303108131	Hong Kong	37, 39, 40	20 August 2014
(B)  雲南水務					
(A)  	Our Company	303108140	Hong Kong	37, 39, 40	20 August 2014
(B)  					

(b) *Patents*

As at the Latest Practicable Date, we had been granted the following patents in the PRC which are material to our business:

Patent	Patentee(s)	Patent No.	Patent Type	Application Date	Grant Date	Expiry Date
Anti-contamination membrane bioreactor	OriginWater Technology	2010206762260	Utility Model	22 December 2010	17 August 2011	21 December 2020
Semi-sludge treatment plant and sludge drying machine	Beijing Clean	201120350388X	Utility Model	19 September 2011	4 July 2012	18 September 2021
Friction-driven, multi-level composite screening machine	Beijing Clean	2013200017713	Utility Model	5 January 2013	14 August 2013	4 January 2023
Waste treatment membrane cleaning device	Beijing Clean	2011203503004	Utility Model	19 September 2011	18 July 2012	18 September 2021
Friction-driven, multi-level composite screening Machine ⁽¹⁾	Beijing Clean	2013100015515	Invention	5 January 2013	n/a ⁽¹⁾	n/a ⁽¹⁾
Waste reclamation disposal machine	Beijing Clean	2014205864640	Utility Model	11 October 2014	8 April 2015	10 October 2024
Multi-functional household waste disposal machine	Beijing Clean	2014206489500	Utility Model	1 November 2014	8 April 2015	30 October 2024
Dedicated environmental waste transportation vehicle	Beijing Clean	2014204514122	Utility Model	12 August 2014	4 February 2015	11 August 2024
Environmental waste bin	Beijing Clean	2014204336604	Utility Model	4 August 2014	20 January 2015	3 August 2024

Note:

- (1) The approval notice for this patent application was issued on 26 February 2015. We have paid the registration fees and expect that the formal patent certificate will be issued by the relevant authority in June 2015.

APPENDIX V**STATUTORY AND GENERAL INFORMATION**

As at the Latest Practicable Date, we had filed the following patent applications in the PRC which are material to our business:

Patent	Applicant(s)	Application No.	Patent Type	Application Date
Alkaline cleaning agent for membrane	OriginWater Technology	2013104697706	Invention	10 October 2013
Dry preservation method of a hollow fiber membrane and its production method	OriginWater Technology	2013106516300	Invention	5 December 2013
Membrane material impact-resistance test method and test device	OriginWater Technology	2013107139792	Invention	23 December 2013
An enhanced hollow fiber membrane with hydrophilia cellular structure and its production method and equipment	OriginWater Technology	2014103475271	invention	21 July 2014
Anti-contamination hollow fiber internal pressure enhancing membrane and its production method	OriginWater Technology	2014107281186	Invention	4 December 2014

As at the Latest Practicable Date, we had been licensed by Beijing OriginWater and Beijing Hua Li Jia Environmental Construction and Technology Co., Ltd. to use the following patents in the PRC pursuant to certain patent licensing agreements, which are material to our business:

Patent	Patentee(s)	Licencee(s)	Patent No.	Patent Type	Expiry Date
Advanced municipal sewage treatment method	Beijing OriginWater	Our Company	201210230088.7	Invention	3 July 2032
Flux recovery method of dry hollow fibre membrane	Beijing OriginWater	Our Company	201110399111.0	Invention	4 December 2031
Sludge drying treatment system	Beijing Hua Li Jia Environmental Construction and Technology Co., Ltd.	Beijing Clean	201120111647.3	Utility Model	23 June 2018
Sludge anaerobic treatment device	Beijing Hua Li Jia Environmental Construction and Technology Co., Ltd.	Beijing Clean	201120350417.2	Utility Model	23 June 2018
Enhanced sludge reduction device	Beijing Hua Li Jia Environmental Construction and Technology Co., Ltd.	Beijing Clean	201120350253.3	Utility Model	23 June 2018

(c) *Domain name*

As at the Latest Practicable Date, we had registered the following domain name which is material to our business:

Domain Name	Registrant	Expiry Date
www.yunnanwater.cn	Our Company	25 August 2024

The contents of this website, registered or licensed, does not form part of this prospectus.

Save as aforesaid, there are no other trademarks, patents, domain names or other intellectual property rights which are material in relation to our business.

C. FURTHER INFORMATION ABOUT OUR DIRECTORS, CHIEF EXECUTIVE, SUPERVISORS AND SUBSTANTIAL SHAREHOLDERS

1. Disclosure of Interest of our Directors, Chief Executive and Supervisors

Immediately following the completion of the Global Offering (assuming that the Over-allotment Option is not exercised), the following Directors, chief executive or Supervisors will have interest and/or short positions in our Shares, underlying Shares and debentures of our Company and its associated corporations (within the meaning of Part XV of the SFO) which will have to be notified to our Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO) or which will be required, pursuant to Section 352 of the SFO, to be recorded in the register referred to therein or which will be required to be notified to our Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules.

Name of Director/Chief executive/Supervisor	Nature of interest	Number of Domestic Shares held	Approximate percentage of shareholding in the total Share capital of the Company
			(%)
Yu Long, Executive Director	Beneficial owner	10,690,000	0.93
Huang Yunjian ⁽¹⁾ , Executive Director	Beneficial owner, interest held jointly with another person	365,799,962	31.81
Liu Xujun ⁽²⁾ , Executive Director	Beneficial owner, interest held jointly with another person	365,799,962	31.81

Notes:

- (1) Huang Yunjian is the beneficial owner of 1,950,000 Domestic Shares. By virtue of the Acting in Concert Agreement, he is deemed to be interested in all the Domestic Shares held by Yunnan Province Water and the Acting in Concert Parties in aggregate by virtue of the SFO.

- (2) Liu Xujun is the beneficial owner of 195,000 Domestic Shares. By virtue of the Acting in Concert Agreement, he is deemed to be interested in all the Domestic Shares held by Yunnan Province Water and the Acting in Concert Parties in aggregate by virtue of the SFO.

2. Service Contracts

Pursuant to Rules 19A.54 and 19A.55 of the Listing Rules, we have entered into a contract with each of our Directors and Supervisors in respect of, among other things, compliance of relevant laws and regulations, observance of the Articles of Association and provisions on arbitration.

Save as disclosed above, we have not entered, and do not propose to enter, into any service contracts with any of our Directors or Supervisors in their respective capacities as Directors/Supervisors (other than contracts expiring or determinable by the employer within one year without the payment of compensation (other than statutory compensation)).

3. Directors' and Supervisors' Remuneration

The aggregate amounts of remuneration paid and benefits in kind granted to the Directors and Supervisors in respect of the financial years ended 31 December 2012, 2013 and 2014 were RMB1,212,000, RMB1,327,000 and RMB2,280,000, respectively. Save as disclosed in Note 9 to the Accountant's Report, no Director or Supervisor received other remuneration or benefits in kind from our Company in respect of the three financial years ended 31 December 2014.

Under the current arrangements, it is expected that our Directors and Supervisors would receive compensation (consisting of remuneration and benefits in kind) from our Company for the year ending 31 December 2015 in the aggregate amount of approximately RMB3.17 million and RMB0.54 million, respectively.

There was no arrangement under which a Director or Supervisor has waived or agreed to waive any emoluments during the Track Record Period.

4. Substantial Shareholders

So far as our Directors are aware, immediately following the completion of the Global Offering (assuming that the Over-allotment Option is not exercised), the following persons will have interests or short positions in our Shares or underlying Shares which would fall to be disclosed to our Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, directly or indirectly, be interested in 10% or more of the nominal value of any class of our share capital carrying voting power at general meetings:

Shareholder	Nature of interest	Number of Domestic Shares held	Approximate percentage of shareholding in the total Share capital of the Company (%)
Yunnan Province Water ⁽¹⁾	Beneficial owner, interest held jointly with another person	365,799,962	31.81
YMCI ⁽²⁾	Interest in controlled corporation	365,799,962	31.81
Liu Xujun ^(1,3)	Beneficial owner, interest held jointly with another person	365,799,962	31.81
Huang Yunjian ^(1,4)	Beneficial owner, interest held jointly with another person	365,799,962	31.81
Wang Yong ^(1,5)	Beneficial owner, interest held jointly with another person	365,799,962	31.81
Beijing OriginWater	Beneficial owner	286,650,000	24.92
Finergy Development ⁽⁶⁾	Beneficial owner	137,880,000	11.99
Kunlun Trust Co., Ltd. ⁽⁶⁾	Interest in controlled corporation	137,880,000	11.99
CNPC Assets Management Co., Ltd. ⁽⁶⁾	Interest in controlled corporation	137,880,000	11.99
China National Petroleum Corporation ⁽⁶⁾	Interest in controlled corporation	137,880,000	11.99

Notes:

- (1) Yunnan Province Water is wholly-owned by YMCI and the beneficial owner of 363,069,962 Domestic Shares. By virtue of the Acting in Concert Agreement, each of Yunnan Province Water and the Acting in Concert Parties is deemed to be interested in all the Domestic Shares held by them in aggregate by virtue of the SFO.

- (2) Yunnan Province Water is wholly-owned by YMCI. Under the SFO, YMCI is deemed to be interested in all the Shares held by Yunnan Province Water.
- (3) Liu Xujun is the beneficial owner of 195,000 Domestic Shares. By virtue of the Acting in Concert Agreement, he is deemed to be interested in all the Domestic Shares held by Yunnan Province Water and the Acting in Concert Parties in aggregate by virtue of the SFO.
- (4) Huang Yunjian is the beneficial owner of 1,950,000 Domestic Shares. By virtue of the Acting in Concert Agreement, he is deemed to be interested in all the Domestic Shares held by Yunnan Province Water and the Acting in Concert Parties in aggregate by virtue of the SFO.
- (5) Wang Yong is the beneficial owner of 585,000 Domestic Shares. By virtue of the Acting in Concert Agreement, he is deemed to be interested in all the Domestic Shares held by Yunnan Province Water and the Acting in Concert Parties in aggregate by virtue of the SFO.
- (6) Finergy Development is controlled as to 84.86% by Kunlun Trust Co., Ltd., its general partner. Kunlun Trust Co., Ltd. is owned as to 82.18% by CNPC Assets Management Co., Ltd., which in turn is wholly-owned by China National Petroleum Corporation. Under the SFO, each of Kunlun Trust Co., Ltd., CNPC Assets Management Co., Ltd. and China National Petroleum Corporation is deemed to be interested in all the Domestic Shares held by Finergy Development.

5. Personal Guarantees

As at the Latest Practicable Date, our Directors and Supervisors have not provided personal guarantees in favour of lenders in connection with banking facilities granted to us.

6. Agency Fees or Commissions Paid or Payable

Save as disclosed in “Underwriting”, no commissions, discounts, agency fees, brokerage or other special terms have been paid in connection with the issue or sale of any share or loan capital of our Company or any of our subsidiaries within two years preceding the date of this prospectus.

7. Related Party Transactions

During two years preceding the date of the prospectus, we have engaged in material related party transactions as described in Note 39 to the Accountant’s Report.

8. Disclaimers

Save as disclosed in “History, Reorganisation and Corporate Structure”, “Underwriting” and “Substantial Shareholders”:

- (a) none of our Directors or Supervisors and any of the parties listed in “Appendix V — Qualification of Experts”:
 - (i) is interested in our promotion, or in any assets which, within two years immediately preceding the date of this prospectus, have been acquired or disposed of by or leased to us, or are proposed to be acquired or disposed of by or leased to our Company;

- (ii) is materially interested in any contract or arrangement subsisting at the date of this prospectus which is significant in relation to our business;
- (b) none of the parties listed in “Appendix V — Qualification of Experts”:
 - (i) is interested legally or beneficially in any of our Shares or any shares in any of our subsidiaries; or
 - (ii) has any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for our Shares or any of our securities;
- (c) as at the Latest Practicable Date, none of the Directors, Supervisors, their respective associates, or any of the Shareholders (who to the knowledge of the Directors owns more than 5% of our issued share capital), had any interest in any of our five largest suppliers and five largest customers;
- (d) none of our Directors, Supervisors or chief executive has any interests or short positions in our 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 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 recorded in the register referred to in that section, or which will be required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules, to be notified to our Company and the Stock Exchange, once the H Shares are listed on the Stock Exchange;
- (e) so far as is known to any Directors or Supervisors of our Company, none of our Directors or Supervisors is a director or employee of a company that has an interest in the share capital of our Company which, once the H Shares are listed on the Stock Exchange, would have to be disclosed pursuant to 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 general meetings of any of our subsidiaries; and
- (f) none of our Directors is interested in any business apart from the Company’s business which competes or is likely to compete, directly or indirectly, with the business of the Company and is required to be disclosed pursuant to the Listing Rules.

D. OTHER INFORMATION**1. Taxation on Holders of H Shares***(a) Hong Kong estate duty*

The Directors have been advised that currently no material liability for estate duty is likely to fall upon our Company or any of our subsidiaries.

(b) Consulting with professional advisors

Intending holders of the H Shares are recommended to consult their professional advisors if they are in doubt as to the taxation implications of subscribing for, purchasing, holding or disposing of or dealing in the H Shares or exercising rights attaching to them. It is emphasised that none of our Company, Directors or the other parties involved in the Global Offering can accept responsibility for any tax effect on, or liabilities of, holders of H Shares resulting from their subscription for, purchase, holding or disposal of or dealing in H Shares or exercise of any rights attaching to them.

2. Litigation

As at the Latest Practicable Date, our Group is not involved in any litigation, arbitration or administrative proceedings of material importance which could have a material adverse effect on our financial condition or results of operations, and, so far as we are aware, no litigation, arbitration or administrative proceedings of material importance is pending or threatened against us.

3. Sole Sponsor

The Sole Sponsor has made an application on our behalf to the Listing Committee for the listing of, and permission to deal in, (i) the H Shares to be issued pursuant to the Global Offering (including any H Shares which may be issued pursuant to the exercise of the Over-allotment Option); and; (ii) the H Shares converted from state-owned Shares which are to be held by the NSSF. All necessary arrangements have been made to enable the securities to be admitted into CCASS for clearing and settlement.

China Merchants Securities (HK) Co., Limited satisfies the independence criteria applicable to sponsors set out in Rule 3A.07 of the Listing Rules.

Our Company agreed to pay the Sole Sponsor a fee of HK\$6.0 million as the sponsor of our Company to the Global Offering (the “**Sponsor Fee**”). The Sponsor Fee relates solely to services provided by the Sole Sponsor in its capacity as a sponsor, and not other services which it may provide, such as (without limitation) book-building, pricing and underwriting.

4. Preliminary Expenses

The estimated preliminary expenses incurred by our Company were approximately RMB1.26 million and are payable by our Company.

5. Qualification of Experts

The qualifications of the experts who have given opinions in this prospectus are as follow:

Name	Qualification
China Merchants Securities (HK) Co., Limited	a corporation licensed to carry out Type 1 (dealing in securities), Type 2 (dealing in futures contracts), Type 4 (advising on securities), Type 6 (advising on corporate finance) and Type 9 (asset management) regulated activities under the SFO
PricewaterhouseCoopers	Certified Public Accountants
Jia Yuan Law Offices	PRC legal advisers to our Company
Ernst & Young	Independent industry consultant
Jones Lang LaSalle Corporate Appraisal and Advisory Limited	Independent valuer
BDO China Shu Lun Pan Certified Public Accountants LLP	Internal control consultant

6. Consents of Experts

Each of the experts as referred to in “Appendix V — Statutory and General Information — Qualification of Experts” has given and has not withdrawn their respective written consents to the issue of this prospectus with the inclusion of their reports and/or letters and/or the references to their names included herein in the form and context in which they are respectively included.

None of the experts named above has any shareholding interests in our Company or any of our subsidiaries or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in our Company or any of our subsidiaries.

7. Compliance Advisor

We have appointed Somerley Capital Limited as our compliance advisor upon the Listing in compliance with Rule 3A.19 of the Listing Rules.

8. No Material Adverse Change

The Directors confirm that, up to the date of this prospectus, there has been no material adverse change in our financial or trading position since 31 December 2014 (being the date to which our latest combined financial results were prepared, as set out in the Accountant’s Report).

9. Binding Effect

This prospectus shall have the effect, if any application is made pursuant hereto, of rendering all persons concerned bound by all the provisions (other than the penal provision) of sections 44A and 44B of the Companies (WUMP) Ordinance so far as applicable.

10. Miscellaneous

Save as disclosed in this Appendix:

- a. within the two years preceding the date of this prospectus: (i) we have not issued nor agreed to issue any share or loan capital fully or partly paid either for cash or for a consideration other than cash, and (ii) no commissions, discounts, brokerage fee or other special terms have been granted in connection with the issue or sale of any Shares of our Company;
- b. no Share or loan capital of our Company is under option or is agreed conditionally or unconditionally to be put under option;
- c. we have not issued nor agreed to issue any founder share, management shares or deferred shares;
- d. none of our subsidiaries has issued or agreed to issue any debentures;
- e. we have no outstanding convertible debt securities or debentures;
- f. there are no arrangements under which future dividends are waived or agreed to be waived;
- g. there have been no interruptions in our business which may have or have had a significant effect on our financial position in the last 12 months;
- h. no part of the equity or debt securities of our Company, if any, is currently listed on or dealt in on any stock exchange or trading system, and no such listing or permission to list on any stock exchange other than the Stock Exchange is currently being or agreed to be sought; and
- i. we currently do not intend to apply for the status of a Sino-foreign investment joint stock limited company and do not expect to be subject to the Sino-foreign Joint Venture Law of the PRC (《中華人民共和國中外合資經營企業法》).

Our register of holders of H Shares will be maintained by our H Share Registrar in Hong Kong. Unless our Directors otherwise agree, all transfer and other documents of title of H Shares must be lodged for registration with and registered by the H Share Registrar and may not be lodged in the PRC.

11. 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).

12. Promoters

The promoters of our Company are Yunnan Province Water, Beijing OriginWater, Finergy Development and the 30 Management Shareholders.

Save as disclosed in this prospectus, within the two years immediately preceding the date of this prospectus, no cash, securities, amount or other benefit has been paid, allotted or given, or has been proposed to be paid, allotted or given, to any of the promoters named above in connection with the Global Offering or the related transactions described in this prospectus.

DOCUMENTS DELIVERED TO THE COMPANIES REGISTRY

The documents attached to a copy of this prospectus and delivered to the Registrar of Companies in Hong Kong for registration were:

- (a) a copy of each of the **WHITE**, **YELLOW** and **GREEN** Application Forms;
- (b) the written consents referred to in “Appendix V — Other Information — Consents of Experts” to this prospectus; and
- (c) a copy of each of the material contracts referred to in “Appendix V — Further Information about Our Business — Summary of Material Contracts”.

DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the office of Eversheds at 21/F., Gloucester Tower, the Landmark, 15 Queen’s Road Central, Hong Kong during normal business hours up to and including the date which is 14 days from the date of this prospectus:

- (a) the Articles of Association;
- (b) the Accountant’s Report from PricewaterhouseCoopers, the text of which is set out in Appendix I to this prospectus;
- (c) the audited consolidated financial statements of the Group for the three years ended 31 December 2014;
- (d) the report in relation to unaudited pro forma financial information, the text of which is set out in Appendix II to this prospectus;
- (e) the industry overview report prepared by EY Advisory;
- (f) the material contracts referred to in “Appendix V — Further Information about Our Business — Summary of Material Contracts”;
- (g) the written consents referred to in “Appendix V — Other Information — Consents of Experts”;

- (h) the service contracts referred to in “Appendix V — Further Information about our Directors, Chief Executives, Supervisors and Substantial Shareholders — 2. Service Contracts”;
- (i) the PRC legal opinion issued by Jia Yuan Law Offices, the legal advisers to our Company on PRC law, in respect of certain aspects of our Group and the property interests; and
- (j) the Company Law, the Securities Law, the Mandatory Provisions and the Special Regulations together with their unofficial translations.



雲南水務投資股份有限公司
YUNNAN WATER INVESTMENT CO., LIMITED*