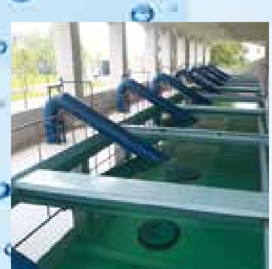
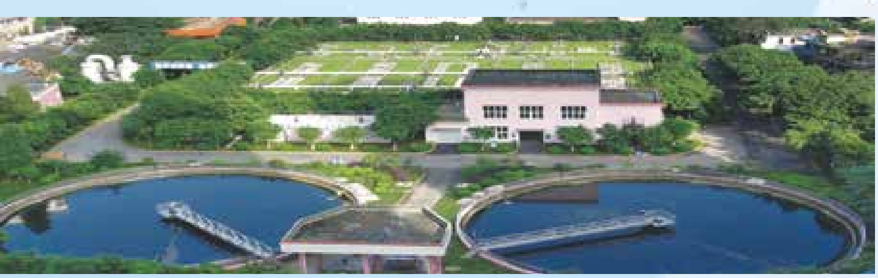
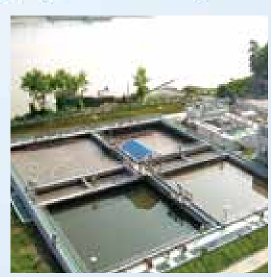
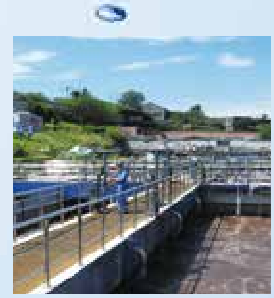
# 瀘州市興瀘水務(集團)股份有限公司
# LUZHOU XINGLU WATER (GROUP) CO., LTD.*

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

Stock Code: 2281

## GLOBAL OFFERING

Sole Sponsor and Sole Global Coordinator

交銀國際 BOCOM INTERNATIONAL

Joint Bookrunners and Joint Lead Managers

交銀國際 BOCOM INTERNATIONAL

首控證券 FIRST CAPITAL SECURITIES LIMITED

海通國際 HAITONG

* For identification purposes only

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

# Luzhou Xinglu Water (Group) Co., Ltd.*
# 瀘州市興瀘水務（集團）股份有限公司

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

## GLOBAL OFFERING

| | | |
|---|---|---|
| **Number of Offer Shares under the Global Offering** | **:** | **214,940,000 H Shares (comprising 195,400,000 H Shares to be offered by the Company and 19,540,000 Sale Shares to be offered by the Selling Shareholders, subject to the Over-allotment Option)** |
| **Number of Hong Kong Public Offer Shares** | **:** | **21,494,000 H Shares (subject to adjustment)** |
| **Number of International Offer Shares** | **:** | **193,446,000 H Shares (comprising 173,906,000 H Shares to be offered by the Company and 19,540,000 Sale Shares to be offered by the Selling Shareholders, subject to adjustment and the Over-allotment Option)** |
| **Maximum Offer Price** | **:** | **HK$2.53 per H Share, plus a brokerage of 1.0%, an SFC transaction levy of 0.0027% and a 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** | **:** | **2281** |

**Sole Sponsor and Sole Global Coordinator**

交銀國際 BOCOM International

**Joint Bookrunners and Joint Lead Managers**

交銀國際 BOCOM International　首控證券 FIRST CAPITAL SECURITIES LIMITED　海通國際 HAITONG

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

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

Our Company is incorporated, and a substantial part of our businesses is located, in the PRC. Potential investors should be aware of the differences in legal, economic and financial systems between the PRC and Hong Kong and that there are different risk factors relating to the investments in our Company. Potential investors should also be aware that the regulatory frameworks in the PRC are different from the regulatory framework in Hong Kong and should take into consideration the different market nature of our H Shares. Such differences and risk factors are set out in the sections headed "Risk Factors" and "Regulatory Environment", "Appendix IV — Summary of Principal Legal and Regulatory Provisions", and "Appendix V — Summary of Articles of Association".

The Offer Price is expected to be fixed by agreement between the Sole Global Coordinator (for itself and on behalf of the Underwriters) and our Company (for ourselves and on behalf of the Selling Shareholders) on the Price Determination Date. The Price Determination Date is expected to be on or around Friday, 24 March 2017 and, in any event, not later than Wednesday, 29 March 2017.

The Offer Price will not be more than HK$2.53 and is currently expected to be not less than HK$2.30 unless otherwise announced. Investors applying for Hong Kong Public Offer Shares must pay, on application, the maximum Offer Price of HK$2.53 for each H Share together with a brokerage of 1%, SFC transaction levy of 0.0027% and Stock Exchange trading fee of 0.005%. The Sole Global Coordinator (for itself and on behalf of the Underwriters), with the consent of our Company (for ourselves and on behalf of the Selling Shareholders), may reduce the number of Offer Shares being offered under the Global Offering and/or the indicative offer price range stated in this prospectus at any time prior to the morning of the last day for lodging applications under the Hong Kong Public Offering. In such a case, a notice of the reduction in the number of Offer Shares being offered under the Global Offering and/or of the indicative offer price range will be published on the website of the Stock Exchange at **www.hkexnews.hk** and our Company's website at **www.lzss.com** not later than the morning of the last day for lodging applications under the Hong Kong Public Offering. Further details are set out in the sections headed "Structure of the Global Offering" and "How to Apply for Hong Kong Public Offer Shares" in this prospectus. **If, for any reason, the Offer Price is not agreed between our Company (for ourselves and on behalf of the Selling Shareholders) and the Sole Global Coordinator (for itself and on behalf of the Underwriters) on or before Wednesday, 29 March 2017, the Global Offering will not proceed and will lapse.**

Prior to making an investment decision, prospective investors should consider carefully all of the information set out in this prospectus and the related Application Forms, including the risk factors set out in the section headed "Risk Factors" in this prospectus.

Pursuant to the termination provisions contained in the Underwriting Agreements in respect of the Offer Shares, the Sole Global Coordinator, for itself and on behalf of the Underwriters, has the right in certain circumstances, in the sole discretion of the Sole Global Coordinator, to terminate the obligations of the Underwriters pursuant to the Underwriting Agreements at any time prior to 8:00 a.m. (Hong Kong time) on the date when dealings in our H Shares first commence on The Stock Exchange of Hong Kong Limited (such first dealing date is currently expected to be on Friday, 31 March 2017). Further details of the terms of the termination provisions are set out in the paragraph headed "Underwriting Arrangements and Expenses — Hong Kong Public Offering — Grounds from termination" under the section headed "Underwriting" in this prospectus. 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 laws of 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 and applicable U.S. state securities laws. The Offer Shares may only be offered, sold or delivered outside the United States in offshore transactions in reliance on Regulation S under U.S. Securities Act.**

* *For identification purposes only*

21 March 2017

Our Company will issue an announcement in Hong Kong to be published on the website of the Stock Exchange at **www.hkexnews.hk** and our Company's website at **www.lzss.com** if there is any change in the following expected timetable of the Hong Kong Public Offering.

Latest time to complete electronic applications under the **White Form eIPO** service through the designated website **www.eipo.com.hk**[2] . . . . . . . . . . 11:30 a.m. on Friday, 24 March 2017

Application lists open[3] . . . . . . . . . . 11:45 a.m. on Friday, 24 March 2017

Latest time for lodging **WHITE** and **YELLOW** Application Forms . . . . . . . . . . 12:00 noon on Friday, 24 March 2017

Latest time for giving **electronic application instructions** to HKSCC[4] . . . . . . . . . . 12:00 noon on Friday, 24 March 2017

Latest time to complete payment of **White Form eIPO** applications by effecting internet banking transfer(s) or PPS payment transfer(s) . . . . . . . . . . 12:00 noon on Friday, 24 March 2017

Application lists close[3] . . . . . . . . . . 12:00 noon on Friday, 24 March 2017

Expected Price Determination Date[5] . . . . . . . . . . Friday, 24 March 2017

Announcement of:

(i) the Offer Price;

(ii) the level of indication of interest in the International Offering;

(iii) the level of application in respect of the Hong Kong Public Offering; and

(iv) the basis of allotment of the Hong Kong Public Offering (with successful applicants' identification document numbers, where applicable)

to be published on our Company's website at **www.lzss.com** and the Stock Exchange's website at **www.hkexnews.hk** on or before . . . . . . . . . . Thursday, 30 March 2017

| | |
|---|---|
| Results of allocations in the Hong Kong Public Offering (with successful applicants' identification document numbers, where appropriate) to be available through a variety of channels as described in the subsection entitled "How to Apply for Hong Kong Public Offer Shares — Publication of Results" in this prospectus from | Thursday, 30 March 2017 |
| Results of allocations in the Hong Kong Public Offering will be available at **www.iporesults.com.hk** with a "search by ID" function from | Thursday, 30 March 2017 |
| Despatch of H Share certificates in respect of wholly or partially successful applications on or before[6] | Thursday, 30 March 2017 |
| Despatch of refund cheques or **White Form** e-Refund payment instructions in respect of wholly or partially unsuccessful applications on or before[7] [8] | Thursday, 30 March 2017 |
| Dealings in the H Shares on the Stock Exchange to commence on | Friday, 31 March 2017 |

*Notes:*

(1) All dates and times refer to Hong Kong local dates and times, except as otherwise stated. Details of the structure of the Global Offering, including its conditions, are set out in the section headed "Structure of the Global Offering" in this prospectus.

(2) You will not be permitted to submit your application through the **White Form eIPO** service through the designated website, **www.eipo.com.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 before 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 "black" rainstorm warning or a tropical cyclone warning signal number eight or above in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Friday, 24 March 2017, the application lists will not open and close on that day. Further information is set out in the subsection headed "Effect of Bad Weather on the Opening of the Application Lists" under the section headed "How to Apply for Hong Kong Public Offer Shares" in this prospectus. If the application lists do not open and close on Friday, 24 March 2017, the dates mentioned in this section may be affected. A press announcement will be made by our Company in such event.

(4) Applicants who apply for Hong Kong Public Offering by giving **electronic application instructions** to HKSCC should refer to the subsection headed "Applying by Giving Electronic Application Instructions to HKSCC via CCASS" under the section headed "How to Apply for Hong Kong Public Offer Shares" in this prospectus.

(5) The Price Determination Date is expected to be on or around Friday, 24 March 2017 and, in any event, no later than 12:00 noon Wednesday, 29 March 2017. If, for any reason, the Offer Price is not agreed on or before Wednesday, 29 March 2017, the Global Offering (including the Hong Kong Public Offering) will not proceed and will lapse.

(6) H Share certificates for the Hong Kong Public Offer Shares are expected to be issued on Thursday, 30 March 2017 but will only become valid certificates of title provided that (i) the Global Offering has become unconditional in all respects, and (ii) the Underwriting Agreements have not been terminated in accordance with their terms. If the Global Offering does not become unconditional or the Underwriting Agreements are

terminated in accordance with their terms, our Company will make an announcement as soon as possible investors who trade the Hong Kong Public Offer Shares on the basis of publicly available allocation details before the receipt of their H Share certificates or before the H Share certificate becoming valid certificates of title do so entirely at their own risk.

(7) Applicants who have applied on **WHITE** Application Forms for 1,000,000 Hong Kong Public 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, Computershare Hong Kong Investor Services Limited at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong from 9:00 a.m. to 1:00 p.m. on Thursday, 30 March 2017, Identification and (where applicable) authorisation 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 Public 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 the **White Form eIPO** service by paying the application monies through a single bank account may have e-Refund payment instructions (if any) despatched to their application payment bank account on Thursday, 30 March 2017. Applicants who have applied through the **White Form eIPO** 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 the **White Form eIPO** service, on or before Thursday, 30 March 2017, by ordinary post and at their own risk.

Uncollected H Share certificates (if applicable) and refund cheques (if applicable) will be despatched by ordinary post (at the applicants' own risk) to the addresses specified in the relevant Application Forms. Further information is set out in the subsection headed "How to Apply for Hong Kong Public Offer Shares — Despatch/Collection of H Share Certificates and Refund Monies" in this prospectus.

(8) Refund cheques will be issued (if applicable) and e-Refund payment instruction will be despatched (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 per Hong Kong Public Offer Share payable on application.

For further details in relation to the Hong Kong Public Offering, see the sections headed "How to Apply for Hong Kong Public Offer Shares" and "Structure of the Global Offering" in this prospectus.

## IMPORTANT NOTICE

***This prospectus is issued by our Company solely in connection with the Hong Kong Public Offering and the Hong Kong Public Offer Shares and does not constitute an offer to sell or a solicitation of an offer to subscribe for or buy, any security other than the Hong Kong Public Offer Shares offered by this prospectus pursuant to the Hong Kong Public Offering. This prospectus may not be used for the purpose of, and does not constitute, an offer 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 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. Information contained in our website at www.lzss.com does not form part of this prospectus.***

***You should rely only on the information contained in this prospectus and the Application Forms to make your investment decision. Our Company has not authorised anyone to provide you with information that is different from what is contained in the prospectus. Any information or representation not made in the prospectus must not be relied on by you as having been authorised by our Company, the Selling Shareholders, the Sole Sponsor, the Sole Global Coordinator, the Joint Bookrunners, the Joint Lead Managers, the Underwriters, any of their respective directors, officers, employees, agents or representatives or any other person involved in the Global Offering.***

# CONTENTS

***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 and is qualified in its entirety by, and should be read in conjunction with, the full text of this prospectus. You should read the whole prospectus (including the appendices hereto, which constitute an integral part of this prospectus) before you decide to invest in the Offer Shares.***

***There are risks associated with any investment. Some of the particular risks in investing in the Offer Shares are set out in the section headed "Risk Factors" in this prospectus. You should read this section carefully before you decide to invest in the Offer Shares.***

## OVERVIEW

We are an integrated municipal water service provider in Sichuan Province ranked second with a market share of approximately 2.8% in terms of tap water sales volume and fourth with a market share of approximately 2.4% in terms of wastewater treatment capacity in Sichuan Province in 2015. Our main business operations during the Track Record Period included tap water supply and wastewater treatment. As of 31 October 2016, we operated six tap water supply plants with an aggregate capacity of approximately 280,500 tons per day and nine wastewater treatment plants with an aggregate capacity of approximately 261,000 tons per day. We are a leading water service provider in Luzhou Area. As of 31 December 2015, we were the largest tap water supplier in terms of supply capacity in Luzhou Area with a market share of approximately 83.0%, according to the Frost & Sullivan Report, and we were the sole wastewater treatment service provider at the county and urban district level of Luzhou Area. By the end of 2015, Luzhou Area had a population of 4.29 million with a geographical area of 12,236.2 sq.km. As a converging point of Yangtze River and Tuojiang River, Luzhou Area commands unique geographic and strategic importance in the natural water ecosystem in China. Luzhou Area has abundant natural water resources and wastewater treatment is critical to maintaining water quality of the two rivers that affect a large population of China.

During the Track Record Period, we generated revenue in our tap water supply operations from (i) sales of tap water to end users; (ii) fees from installation projects we performed to connect end users to our pipeline network and from maintenance service rendered; and (iii) construction and upgrade services of tap water supply plants and related facilities. We generated revenue in our wastewater treatment operations from (i) treatment tariff paid to us by local governments pursuant to concession agreements; (ii) interest income on receivables under service concession arrangements; and (iii) construction and upgrade services of wastewater treatment plants and related facilities. Our cost of sales and services primarily included construction cost, cost of electricity, employee benefit costs and maintenance fee. For more details, please refer to "Financial Information — Description of Selected Line Items in Consolidated Statements of Profit or Loss and Other Comprehensive

Income — Cost of Sales and Services — Cost of sales and services by nature". The table below sets forth a breakdown of our revenue by segments during the Track Record Period:

| | Year ended 31 December | | | | | | Ten months ended 31 October | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 2013 | | 2014 | | 2015 | | 2015 | | 2016 | |
| | RMB'000 | % | RMB'000 | % | RMB'000 | % | RMB'000 (unaudited) | % | RMB'000 | % |
| **Tap water supply** | | | | | | | | | | |
| ***Operational projects*** | | | | | | | | | | |
| Tap water | 132,299 | 32.3 | 148,185 | 23.5 | 163,348 | 17.9 | 134,479 | 18.0 | 146,105 | 20.3 |
| Installation and maintenance services[1] | 85,473 | 20.9 | 108,757 | 17.3 | 131,760 | 14.4 | 106,651 | 14.3 | 113,849 | 15.8 |
| Upgrade services of tap water supply infrastructure[2] | 83,107 | 20.3 | 65,857 | 10.5 | 129,896 | 14.2 | 106,624 | 14.3 | 86,435 | 12.0 |
| ***Pre-operational projects*** | | | | | | | | | | |
| Construction services of tap water supply infrastructure[2] | 9,208 | 2.2 | 30,152 | 4.8 | 106,552 | 11.7 | 83,741 | 11.2 | 97,912 | 13.6 |
| **Subtotal** | 310,087 | 75.7 | 352,951 | 56.1 | 531,556 | 58.2 | 431,495 | 57.8 | 444,301 | 61.7 |
| **Wastewater treatment** | | | | | | | | | | |
| ***Operational projects*** | | | | | | | | | | |
| Operating service | 77,647 | 18.9 | 93,565 | 14.9 | 109,002 | 12.0 | 90,186 | 12.1 | 101,892 | 14.1 |
| Interest income on receivables under service concession arrangements[3] | 13,451 | 3.3 | 15,747 | 2.5 | 18,959 | 2.1 | 15,546 | 2.2 | 21,517 | 3.0 |
| Upgrade services of wastewater treatment infrastructure[2] | 2,512 | 0.6 | 3,374 | 0.5 | 5,502 | 0.6 | – | – | 477 | 0.1 |
| ***Pre-operational projects*** | | | | | | | | | | |
| Construction services of wastewater treatment infrastructure[2] | 6,101 | 1.5 | 163,346 | 26.0 | 246,877 | 27.1 | 208,386 | 27.9 | 152,780 | 21.1 |
| **Subtotal** | 99,711 | 24.3 | 276,032 | 43.9 | 380,340 | 41.8 | 314,118 | 42.2 | 276,666 | 38.3 |
| **Total** | 409,798 | 100.0 | 628,983 | 100.0 | 911,896 | 100.0 | 745,613 | 100.0 | 720,967 | 100.0 |

*Notes:*

(1) We undertook pipeline construction projects based on end user needs or government planning. We generated revenue from such construction projects by charging new residential and non-residential end users an installation fee, which was calculated based on standards set in relevant regulations of local government. Such installation fee was recognised as revenue based on percentage of completion. For more details, please refer to "Financial Information — Description of Selected Line Items in Consolidated Statements of Profit or Loss and Other Comprehensive Income — Revenue — Tap water supply — Installation and Maintenance Services".

(2) We construct and upgrade our new and existing tap water supply and wastewater treatment infrastructure for our pre-operational and operational projects, respectively, to extend the life or production capacity of the infrastructure under service concession arrangements. Our construction and upgrade projects include installation of new facilities to existing infrastructure or replacement of certain equipments and machinery that are currently in use. Accordingly, we recognised revenue in connection with the construction services and upgrade services of our tap water supply and wastewater treatment infrastructure of our operational and pre-operational projects before such infrastructure are put into operation pursuant to IFRIC 12, based on the nature of the corresponding concession arrangement with the local governments as grantors of concession rights. For more details, please refer to "Financial Information — Critical Accounting Policies — Service Concession Arrangements".

Our upgrade services of tap water supply infrastructure includes tap water supply plant upgrade and pipeline upgrade and extension projects. Our upgrade services of wastewater treatment infrastructure include upgrade projects of infrastructures at existing wastewater treatment plants.

(3) We recognised the portion of consideration given to the grantors representing the extent that we have a contractual right to receive cash from the grantors as receivables under service concession arrangements which are carried at amortised costs and we recognised interest income on receivables under service concession arrangements using the effective interest method throughout the concession period based on our outstanding receivables under service concession arrangements balance in accordance with IFRIC 12. The effective interest rate is determined by an independent valuer, Savills, which fell within the range from 3.51% to 6.00% per annum during the Track Record Period. For more details on the relevant accounting policies, please refer to the section "Financial Information — Critical Accounting Policies — 1. Service Concession Arrangements — 1.3 Consideration given to the Grantors".

We recognise revenue relating to construction services of new infrastructure of our pre-operational projects. We also recognise revenue relating to upgrade services including pipeline upgrade and extension or expansion of existing tap water supply and wastewater treatment infrastructure of our operational projects. We recognise revenue regarding construction and upgrade services of tap water supply or wastewater treatment infrastructure based on our estimation of gross profits on a cost-plus basis as determined by an independent valuer, Savills, with reference to comparable projects in the relevant period (details of such valuation, please refer to "Financial Information — Description of Selected Line Items in Consolidated Statements of Profit or Loss and Other Comprehensive Income — Revenue — Tap water supply — Construction and upgrade services of tap water supply infrastructure" and "Financial Information — Description of Selected Line Items in Consolidated Statements of Profit or Loss and Other Comprehensive Income — Revenue — Wastewater treatment — Construction and upgrade services of wastewater treatment infrastructure") and when the outcome of the construction or upgrade can be estimated reliably by reference to the stage of completion at the end of the reporting period, measured based on the proportion of costs incurred for work performed to date relative to the estimated total costs, except where this would not be representative of the stage of completion. When the outcome of the construction or upgrade cannot be estimated reliably, revenue is recognised to the extent of costs incurred that it is probable will be recovered. When it is probable that the total costs will exceed total revenue, the expected loss is recognised as an expense immediately. The costs incurred to date plus recognised profits less recognised losses, if any, (representing the revenue) are included in "Intangible assets". Our revenue recognition policy for our revenue from construction or upgrade services of the existing or new infrastructure is set out in "Financial Information — Critical Accounting Policies — 1. Service Concession Arrangements — 1.4 Construction and upgrade services".

Since we generally subcontract the construction for tap water supply and wastewater treatment plants to third party contractors, the gross profit margin is comparable with companies in the same sector which are primarily involved in the administration of the construction work, but is not comparable with companies in the same sector which performed part of or all of the construction services on their own. The low margin expressed in terms of a percentage of the construction service consideration reflects the relatively low level of risk the Group is taking regarding the construction services according to the terms with its subcontractors. By subcontracting our construction work for tap water supply and wastewater treatment plants to third party contractors, we are exposed to default risk by our subcontractors under the relevant subcontracts. For more details, please refer to "Risk Factors — Risks Relating to our Business and Industry — We are exposed to default risk by our subcontractors under the relevant subcontracts".

The total revenue from construction and upgrade services of tap water supply and wastewater treatment infrastructure for each of the three years ended 31 December 2013, 2014 and 2015 and for the ten months ended 31 October 2016 represent additions to intangible assets for the same years/period as below:

| | Year ended 31 December | | | Ten months ended 31 October |
|---|---|---|---|---|
| | **2013** | **2014** | **2015** | **2016** |
| | **RMB'000** | **RMB'000** | **RMB'000** | **RMB'000** |
| **Tap water supply** | | | | |
| *Operational projects* | 83,107 | 65,857 | 129,896 | 86,435 |
| *Pre-operational projects* | 9,208 | 30,152 | 106,552 | 97,912 |
| **Wastewater treatment** | | | | |
| *Operational projects* | 2,512 | 3,374 | 5,502 | 477 |
| *Pre-operational projects* | 6,101 | 163,346 | 246,877 | 152,780 |
| Additions to intangible assets | 100,928 | 262,729 | 488,827 | 337,604 |

We typically do not receive payments from the relevant government authorities during the construction or upgrade of our infrastructure and the actual cash inflow for our construction and upgrade revenue is only received in the form of cash tariff payments after the relevant infrastructure put into operation over the stipulated concession period. For more details, please refer to "Risk Factors — Risks Relating to our Business and Industry — We recognise revenue during the construction phase of our construction and upgrade projects, but typically do not receive any cash inflow from the relevant infrastructure until such infrastructure put into operation".

The table below sets forth a breakdown of our gross profit and gross profit margin by segments for the indicated periods.

| | Years ended 31 December | | | | | | Ten months ended 31 October | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 2013 | | 2014 | | 2015 | | 2015 | | 2016 | |
| | Gross Profit | Gross Profit margin | Gross Profit | Gross Profit Margin | Gross Profit | Gross Profit Margin | Gross Profit | Gross Profit margin | Gross Profit | Gross Profit margin |
| | RMB'000 | % | RMB'000 | % | RMB'000 | % | RMB'000 (unaudited) | % | RMB'000 | % |
| **Tap water supply** | | | | | | | | | | |
| ***Operational projects*** | | | | | | | | | | |
| Tap water . . . . . . . | 33,856 | 25.6 | 31,914 | 21.5 | 40,897 | 25.0 | 33,220 | 24.7 | 27,185 | 18.6 |
| Installation and maintenance services . | 62,224 | 72.8 | 79,972 | 73.5 | 102,599 | 77.9 | 82,822 | 77.7 | 84,300 | 74.0 |
| Upgrade services of tap water supply infrastructure(1) . . . | – | – | 250 | 0.4 | 284 | 0.2 | 235 | 0.2 | 140 | 0.2 |
| ***Pre-operational projects*** | | | | | | | | | | |
| Construction services of tap water supply infrastructure(1) . . . | – | – | 115 | 0.4 | 234 | 0.2 | 185 | 0.2 | 284 | 0.3 |
| **Subtotal** . . . . . . . . | 96,080 | 31.0 | 112,251 | 31.8 | 144,014 | 27.1 | 116,462 | 27.0 | 111,909 | 25.2 |
| **Wastewater treatment** | | | | | | | | | | |
| ***Operational projects*** | | | | | | | | | | |
| Operating service . . . . | 32,073 | 41.3 | 44,065 | 47.1 | 49,335 | 45.3 | 41,122 | 45.6 | 45,286 | 44.4 |
| Interest income on receivables under service concession arrangements . . . . . | 13,451 | 100.0 | 15,747 | 100.0 | 18,959 | 100.0 | 15,546 | 100.0 | 21,517 | 100.0 |
| Upgrade services of wastewater treatment infrastructure(1) . . . | – | – | 2 | 0.1 | 5 | – | – | – | 1 | 0.2 |
| ***Pre-operational projects*** | | | | | | | | | | |
| Construction services of wastewater treatment infrastructure(1) . . . | – | – | 98 | 0.1 | 148 | 0.1 | 125 | 0.1 | 170 | 0.1 |
| **Subtotal** . . . . . . . . | 45,524 | 45.7 | 59,912 | 21.7 | 68,447 | 18.0 | 56,793 | 18.1 | 66,974 | 24.2 |
| **Total** . . . . . . . . . . . | 141,604 | 34.6 | 172,163 | 27.4 | 212,461 | 23.3 | 173,255 | 23.2 | 178,883 | 24.8 |

*Note:*

(1) Gross profits of construction service or upgrade service relating to our tap water supply and wastewater treatment infrastructure were determined by the independent valuer, Savills, with reference to factors including comparable projects in the relevant period. For the year ended 31 December 2013, the gross profit margin of such comparable projects were immaterial, and we therefore recorded nil gross profit for the construction service and upgrade service of our tap water supply and wastewater treatment infrastructure in the same period.

For details, please refer to the sections "Financial Information — Description of Selected Line Items in Consolidated Statements of Profit or Loss and Other Comprehensive Income — Revenue — Tap water supply — Construction and upgrade services of tap water supply infrastructure" and "Financial Information — Description of Selected Line Items in Consolidated Statements of Profit or Loss and Other Comprehensive Income — Revenue — Wastewater treatment — Construction and upgrade services of wastewater treatment infrastructure".

## OUR BUSINESS MODELS

We provide integrated municipal water-related public utility services, including tap water supply and wastewater treatment in Luzhou Area. We adopt the BOO and TOO project models in our business, and entered into concession agreements with local governments which typically have terms of 30 years. Key features of our project models are as follows:

| Project Models | Key Features |
|---|---|
| BOO | • We finance and construct our own facilities.<br>• The local government grants us the right to operate the facilities and we charge our customers for tap water supply or wastewater treatment services during the concession period.<br>• We retain the infrastructure we invested and secure a new concession right at the end of the concession period. |
| TOO | • We acquire the concession right and the ownership of the relevant facilities for agreed consideration.<br>• The local government grants us the right to operate the facilities and we charge our customers for tap water supply or wastewater treatment services during the concession period.<br>• We retain the infrastructure we acquired and secure a new concession right at the end of the concession period. |

*Note:*

We are not under any obligation pursuant to the relevant concession agreements to transfer our service-related facilities to the relevant government authorities at the end of concession periods, except for the Hejiang Supply Plant and Hejiang Treatment Plant, for which we agreed to transfer to the Hejiang County Government for a consideration, if we fail to secure an extension upon the expiration of the concession period. For more details, please refer to the section "Our Business — Project and Operation Management — Tender and Acquisition Procedures — Concession Rights to Conduct Tap Water Supply Operations" and "Our Business — Project and Operation Management — Tender and Acquisition Procedures — Concession Rights to Conduct Wastewater Treatment Operations".

The entire useful life of our infrastructure of the BOO and TOO projects with service concession agreement established are used for provision of tap water supply and wastewater treatment service that are controlled and regulated by the Grantors during the concession periods. Our service concession arrangements are within the scope of IFRIC 12.

The application of service concession arrangements in accordance with IFRIC 12 has had material impacts on revenue recognition during the Track Record Period.

For details of the accounting treatments for our service concession arrangements, please refer to the section "Summary — Accounting Treatments of Our Service Concession Agreements".

During the Track Record Period, we recognised revenue in our tap water supply operations from (i) sale of tap water to end users upon transmission to our customers and when collectability of related tariff is reasonably assured; (ii) fees from installation projects we performed to connect end users to our pipeline network and from maintenance service based on stages of completion of such work rendered and our estimation of gross profits on a cost-plus basis; and (iii) construction and upgrade services of tap water supply plants and related facilities based on stages of completion of such work rendered and our estimation of gross profits on a cost-plus basis as determined by an independent valuer. We generated revenue in our wastewater treatment operations from (i) treatment tariff paid to us by local governments pursuant to concession agreements (less partial settlement of receivables under service concession) when wastewater treatment service is rendered; (ii) interest income on receivables under service concession arrangements using the effective interest rates as determined by an independent valuer multiplied by our outstanding receivables under service concession arrangements balances; and (iii) construction and upgrade services of wastewater treatment plants and related facilities on the same basis as similar services of our tap water supply plants. For further details on the accounting treatments of our revenue recognition in relation to our concession arrangements under IFRIC 12, please refer to the section headed "Financial Information — Critical Accounting policies and Accounting Treatments of Our Service Concession Arrangements". In respect of our revenue from construction and upgrade services, the actual cash inflow will only be received in the form of cash tariff payments during the operational stage of the relevant tap water and wastewater treatment plants over the stipulated concession period. As a result, there would be a mismatch between the recognition of such revenue and the underlying cash flows for such tap water and wastewater treatment plants. We generated all our revenue from our operations in Luzhou Area during the Track Record Period.

Based on the feasibility studies available for BOO and TOO projects in operation and/or under construction during the Track Record Period, we estimated that the investment return rate before tax for BOO and TOO projects, representing the internal rate of return as stated in feasibility studies done before building the plant, would range from 5.07% to 9.88% and 4.02% to 6.95% respectively.

## OUR TAP WATER SUPPLY SERVICES

The table below sets forth our water supply projects in operation, under construction and at planning stage, respectively, and their respective project types as of the Latest Practicable Date:

| | BOO | TOO |
|---|---|---|
| Projects in operation | Nanjiao Supply Plant and Beijiao Supply Plant (Phase I, Phase II and Phase III); | Hejiang Supply Plant; Lantian Supply Plant; Qiancao Supply Plant; and Guanshan Supply Plant |
| Projects under construction[(1)] | Nanjiao Supply Plant II Phase I; Qiancao Supply Plant II Phase I and pipeline upgrade and extension projects | N/A |
| Project at planning stage[(2)] | Huangxi Supply Plant | N/A |

*Notes:*

(1) Projects under construction refer to projects which are in the process of constructing the infrastructure or performing the upgrade before operation.

(2) Projects at planning stage refer to projects which are at the stage of preparation of construction or upgrade.

During the Track Record Period, we operated six water supply plants, including Beijiao Supply Plant that contains three projects of Phase I, Phase II and Phase III, through which we produce and supply tap water to residential and non-residential end users in Luzhou Area. We conduct our tap water supply operations under the concession rights granted to us pursuant to relevant concession agreements. For more details, please refer to "Our Business — Project and Operation Management — Tender and Acquisition Procedures — Concession Rights to Conduct Tap Water Supply Operations". The tap water we distribute to end users has to meet the applicable quality standards, including the National Drinking Water Standards (GB 5749-2006) (國家生活飲用水衛生標準). The table below sets forth a summary of our tap water supply plants in operation as of 31 October 2016:

| Plant name | Nanjiao Supply Plant | Beijiao Supply Plant | Hejiang Supply Plant | Lantian Supply Plant | Qiancao Supply Plant | Guanshan Supply Plant |
|---|---|---|---|---|---|---|
| Project type | BOO | BOO | TOO | TOO | TOO | TOO |
| Entity name | Nanjiao Water | Beijiao Water | Hejiang Water | Jiangnan Water | Xinglu Water | Naxi Water |
| Service area | Luzhou urban area | Luzhou urban area and Lu County(1) | Hejiang County | Luzhou urban area | Luzhou urban area | Luzhou urban area |
| Time of acquisition/ completion of construction | 1987(2) | (i) 1994 (Phase I)(2); (ii) 2008 (Phase II); (iii) May 2016 (Phase III) | September 2003(3) | August 1999(4) | November 2002(5) | November 2000(6) |
| Date of the current concession agreement | 28 June 2005 | 28 June 2005 | 4 April 2016 | 28 June 2005 | 28 June 2005 | 28 June 2005 |
| Concession term (years) | 30 | 30 | 30 | 30 | 30 | 30 |
| Start of the concession period | June 2005 | June 2005 | September 2003 | June 2005 | June 2005 | June 2005 |
| End of the concession period | June 2035 | June 2035 | September 2033 | June 2035 | June 2035 | June 2035 |
| Designed capacity (ton'000/day) | 62.5 | 145.0(7) | 30.0 | 8.0 | 29.0 | 6.0 |

*Notes:*

(1) We provide tap water supply services to Lu County through Beijiao Supply Plant. For more details, please refer to "Our Business — Project and Operation Management — Tender and Acquisition Procedures — Concession Rights to Conduct Tap Water Supply Operations — Concession agreement in relation to our tap water supply operations in Lu County".

(2) Constructed by our predecessor.

(3) Acquired from Hejiang County Government* (合江縣人民政府) for a consideration of RMB3.7 million in September 2003.

(4) Transferred to us by Lantian County Government* (藍田鎮人民政府) for nil consideration in August 1999.

(5) Transferred to us by Sichuan Changjiang Engineering and Machinery Group* (四川長江工程機械集團) for nil considerations in November 2002.

(6) Transferred to us by Luzhou Municipal People's Government* (瀘州市人民政府) for nil consideration in November 2000.

(7) The designed capacity of Beijao Supply Plant increased from 100,000 tons per day to 145,000 tons per day after completion of construction of Beijiao Supply Plant Phase III in May 2016 and we are in the process of applying for relevant license for the project.

The average utilisation rate of our water supply plants was 84.0%, 89.9%, 94.6% and 93.0% in 2013, 2014 and 2015 and the ten months ended 31 October 2016, respectively. For the utilisation rate for each of our water supply plants during the Track Record Period, please refer to "Our Business — Our Tap Water Supply Services — Overview". During the Track Record Period, we undertook several projects to construct new water supply plants and expand existing water supply plants in order to increase the designed supply capacity. We estimate that our planned capital expenditures for ongoing construction and upgrade services including projects that are currently at the planning stage for the year ending 31 December 2017 to be approximately RMB221.8 million. For more details regarding our planned capital expenditure, please refer to sections headed "Our Business — Project and Operation Management — Construction of plants — Construction Projects for Tap Water Supply Plants", "Our Business — Project and Operation Management — Construction of plants — Construction Projects for Wastewater Treatment Plants" and "Financial Information — Capital Expenditure — Planned Capital Expenditures".

We served approximately 222,000 residential end user accounts and approximately 38,000 non-residential end user accounts in Luzhou Area as of 31 October 2016. Pursuant to the relevant government rules and regulations, we charge different retail prices for residential and non-residential end users. Local DRCs are the competent authority to set the municipal tap water retail prices for the different types of end users. For more details on the relevant rules and regulations on the pricing of tap water supply, please refer to the section "Regulatory Environment". The table below sets forth information in relation to our tap water supply operations by end user type for the indicated periods:

| | Year ended 31 December | | | | | | Ten months ended 31 October | |
|---|---|---|---|---|---|---|---|---|
| | 2013 | | 2014 | | 2015 | | 2016 | |
| | | % | | % | | % | | % |
| **Sales volume (million ton)** | | | | | | | | |
| Residential | 40.2 | 63.6 | 44.6 | 64.5 | 51.0 | 66.9 | 46.6 | 68.4 |
| Non-residential(1) | 23.0 | 36.4 | 24.6 | 35.5 | 25.2 | 33.1 | 21.5 | 31.6 |
| Total | 63.2 | 100.0 | 69.2 | 100.0 | 76.2 | 100.0 | 68.1 | 100.0 |
| **Number of end user accounts at the end of the period (in thousand)** | | | | | | | | |
| Residential | 163 | 83.5 | 185 | 84.5 | 205 | 85.2 | 222 | 85.4 |
| Non-residential(1) | 32 | 16.5 | 34 | 15.5 | 36 | 14.8 | 38 | 14.6 |
| Total | 195 | 100.0 | 219 | 100.0 | 241 | 100.0 | 260 | 100.0 |

*Note:*

(1) Tap water usage by non-residential end users includes general non-residential usage, special purpose usage and industrial/temporary usage.

## OUR WASTEWATER TREATMENT SERVICES

The table below sets forth our wastewater treatment projects in operation, under construction and at planning stage, respectively, and their respective project types as of the Latest Practicable Date:

| | BOO | TOO |
|---|---|---|
| Projects in operation | Yaerdang Treatment Plant; Erdaoxi Treatment Plant (Phase I and Phase II); Naxi Treatment Plant (Phase II); Chengdong Treatment Plant; and Chengnan Treatment Plant | Naxi Treatment Plant Phase I; Xuyong Treatment Plant; Lu County Treatment Plant; Hejiang Treatment Plant; and Gulin Treatment Plant |
| Projects under construction(1) | N/A | N/A |
| Project at planning stage(2) | Upgrade project of Yaerdang Treatment Plant | N/A |

*Notes:*

(1) Projects under construction refer to projects which are in the process of constructing the infrastructure or performing the upgrade before operation.

(2) Projects at planning stage refer to projects which are at the stage of preparation of construction or upgrade.

During the Track Record Period, we operated nine wastewater treatment plants in Luzhou Area, including Erdaoxi Treatment Plant and Naxi Treatment Plant that respectively contain two projects of Phase I and Phase II. We conduct our wastewater treatment operations under the concession rights granted to us pursuant to relevant concession agreements. For more details, please refer to "Our Business — Project and Operation Management — Tender and Acquisition Procedures — Concession Rights to Conduct Wastewater Treatment Operations". In Luzhou Area, tariff unit price for wastewater treatment services provided by each treatment plant is individually negotiated with the relevant local government authorities. The relevant concession agreements set forth the initial tariff unit price and also a mechanism for further price adjustment. The table below sets forth information in relation to our wastewater treatment plants as of 31 October 2016:

| | Yaerdang Treatment Plant | Erdaoxi Treatment Plant | Naxi Treatment Plant | Xuyong Treatment Plant | Lu County Treatment Plant | Hejiang Treatment Plant | Gulin Treatment Plant | Chengdong Treatment Plant | Chengnan Treatment Plant |
|---|---|---|---|---|---|---|---|---|---|
| Project type | BOO | BOO | (i) TOO (Phase I); (ii) BOO (Phase II) | TOO | TOO | TOO | TOO | BOO | BOO |
| Entity name | Xinglu Wastewater Treatment | Xinglu Wastewater Treatment | Xinglu Wastewater Treatment | Xinglu Wastewater Treatment | Xinglu Wastewater Treatment | Xinglu Wastewater Treatment | Xinglu Wastewater Treatment | Xinglu Wastewater Treatment | Xinglu Wastewater Treatment |
| Designated area | Luzhou urban area | Luzhou urban area | Luzhou urban area | Xuyong County | Lu County | Hejiang County | Gulin County | Luzhou urban area | Luzhou urban area |
| Time of acquisition/ completion of construction | February 2003 | (i) December 2010 (Phase I); (ii) December 2014 (Phase II) | (i) August 2012 (Phase I); (ii) April 2015 (Phase II); | October 2011 | February 2013 | April 2014 | July 2014 | May 2016 | May 2016 |
| Acquisition consideration (RMB in million) | N/A | N/A | (i) 35.0 (Phase I) (ii) N/A (Phase II) | 47.0 | 24.5 | 41.4 | 30.2 | N/A | N/A |
| Date of concession agreement | May 2014[1] | May 2014[1] | May 2014[1] | April 2016[2] | April 2016[2] | April 2016[2] | March 2016[2] | May 2014 | May 2014 |
| Concession term (years) | 30 | 30 | 30 | 30 | 30 | 30 | 30 | 30 | 30 |
| Start of the concession period | January 2013 | January 2013 | January 2013 | March 2012 | February 2013 | May 2014 | August 2014 | January 2013 | January 2013 |
| End of the concession period | December 2042 | December 2042 | December 2042 | February 2042 | January 2043 | April 2044 | July 2044 | December 2042 | December 2042 |
| Designed capacity (ton'000/day) | 50.0 | 40.0 | 27.5 | 20.0 | 6.0 | 10.0 | 7.5 | 50 | 50 |
| Minimal treatment volume (ton'000/day) | 40.0 | 30.0 | 21.5 | 20.0 | 6.0 | 9.0 | 6.75 | 30 | 30 |
| Unit tariff price (RMB/ton) | 2.88 | 2.88 | (i) 2.86 (Phase I); (ii) 2.88 (Phase II) | 2.03 | 3.35 | 2.60 | 3.32 | 2.88 | 2.88 |
| Treatment technology | $A^2O$ | CASS | (i) CAST (Phase I); (ii) $A^2O$ (Phase II) | CASS | CAST | CAST | Oxidisation circulation | $A^2O$ | $A^2O$ |
| Quality requirement for discharged water[3] | B | A | (i) B (Phase I); (ii) A (Phase II) | A | B | B | A | A | A |

*Notes:*

(1) In 2013, the People's Government of Luzhou City* (瀘州市人民政府) issued a Notice for Accelerating Urban Wastewater Treatment in Luzhou City* (《關於加快推進我市城市生活污水處理工作的通知》) which mandated that concession rights shall be granted to operators of wastewater treatment services in Luzhou urban area pursuant to concession agreements.

(2) We provided wastewater treatment services in the plant pursuant to a service agreement entered into with the relevant government authorities prior to entering into the concession agreement in 2016. For more details, please refer to "Our Business — Project and Operation Management — Concession Rights to Conduct Wastewater Treatment Operations".

(3) As set forth in the Standards of Discharged Water for Urban Wastewater Treatment Plants* (城填污水處理廠污染物排放標準)(GB18918-2002).

| Number | Basic regulated pollutants | | Class I (Unit: mg/L) Standard A | Standard B |
|---|---|---|---|---|
| 1 | COD | | 50 | 60 |
| 2 | $BOD_5$ | | 10 | 20 |
| 3 | SS | | 10 | 20 |
| 4 | Animal and vegetable oil | | 1 | 3 |
| 5 | Oil | | 1 | 3 |
| 6 | Anionic surface-active agents | | 0.5 | 1 |
| 7 | Total amount of nitrogen (Calculated in N) | | 15 | 20 |
| 8 | $NH_4$ (Calculated in N) | | 5(8) | 8(15) |
| 9 | Phosphorous (Calculated in P) | Constructed before 31 December 2005 | 1 | 1.5 |
| | | Constructed after 1 January 2006 | 0.5 | 1 |
| 10 | Chromaticity (dilution multiple) | | 30 | 30 |
| 11 | pH | | 6–9 | 6–9 |
| 12 | Fecal Coliform (unit/L) | | $10^3$ | $10^4$ |

*Notes:*

(1) Implementation in accordance with removal rate indicators is as follows: When COD of inflow of water is greater than 350mg/L, then the removal rate should be greater than 60%; when BOD is greater than 160mg/L, then the removal rate should be greater than 50%.

(2) The value outside the bracket represents the controlling indicator when the water temperature is >12°C, while the value insider the bracket represents the controlling indicator when the water temperature is ≤12°C.

The average utilisation rate of our wastewater treatment plants was 83.3%, 91.5%, 86.7% and 92.4% in 2013, 2014 and 2015 and the ten months ended 31 October 2016, respectively. For the utilisation rate for each of our wastewater treatment plants during the Track Record Period, please refer to "Our Business — Our Wastewater Treatment Services — Overview". During the Track Record Period, we undertook several projects to construct new wastewater treatment plants and expand existing wastewater treatment plants in order to increase the designed treatment capacity. We estimate that our planned capital expenditures for ongoing construction and upgrade services including projects that are currently at the planning stage for the year ending 31 December 2017 to be approximately RMB221.8 million. For more details regarding our planned capital expenditure, please refer to sections headed "Our Business — Project and Operation Management — Construction of plants — Construction Projects for Tap Water Supply Plants", "Our Business — Project and Operation Management — Construction of plants — Construction Projects for Wastewater Treatment Plants" and "Financial Information — Capital Expenditure — Planned Capital Expenditures".

## OUR COMPETITIVE STRENGTHS

We believe we have the following competitive strengths in the industries we operate:

- integrated municipal water service provider in Sichuan Province with a dominant presence in Luzhou Area;

- strong support from municipal governments and major SOE controlling shareholders;

- uniquely positioned to capitalise on the accelerated growth of municipal water service industries in suburb and rural areas;
- proven track record of successful growth and operations; and
- experienced and stable management team with rich management experience and in-depth industry knowledge.

## OUR STRATEGIES

We intend to pursue the following strategies to grow our business:

- continue to grow our operations and consolidate our dominant position in Luzhou Area;
- expand into other geographic areas by leveraging our experience and market leader position in Luzhou Area;
- diversify our operations and explore business opportunities in related industries; and
- seek strategic alliance with selected SOEs.

## OUR CUSTOMERS

During the Track Record Period, our customers in tap water supply services are commercial and non-commercial entities and individual households. Our customers in pipeline installation operations are usually commercial or government entities for which we construct the pipelines for connection to our pipeline network. Our customers in wastewater treatment services are local governments who make tariff payment for wastewater treatment services pursuant to the relevant concession agreements. Our customers for construction and upgrade services are local governments as grantors of concession rights in relation to the relevant tap water supply and wastewater treatment plants being constructed or upgraded. For more details, please refer to "Our Business — Customers".

Revenue generated from our top five customers was RMB185.2 million, RMB355.9 million, RMB603.5 million and RMB458.6 million, in 2013, 2014 and 2015 and the ten months ended 31 October 2016, respectively, representing 45.2%, 56.6%, 66.2% and 63.6% of our total revenue during the same periods. Revenue generated from our largest customer was RMB85.3 million, RMB238.1 million, RMB340.0 million and RMB250.0 million, in 2013, 2014 and 2015 and the ten months ended 31 October 2016, respectively, representing 20.8%, 37.9%, 37.3% and 34.7% of our total revenue during the same periods. Our top five customers during the Track Record Period were local government entities except for one customer that is our connected person. We generated wastewater treatment revenue, construction revenue or installation revenue from our top five customers during the Track Record Period. We have established long-term relationship with such customers due to the nature of our business.

## OUR SUPPLIERS

During the Track Record Period, our suppliers included construction-related suppliers, such as subcontractors and designing companies we engaged for large-scale pipeline and plant construction projects and local government entities which granted us land use rights for the relevant plant construction projects. Our suppliers also included non-construction related suppliers such as electricity companies which provided the electricity necessary to operate our water supply and wastewater treatment plants. In addition, during the Track Record Period, we procured tap water from two Independent Third Party tap water producers as supplement to our own tap water production in order to meet demand from our end users. For more details, please refer to "Our Business — Suppliers".

## CONDENSED CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

The table below sets forth our condensed consolidated statements of profit or loss and other comprehensive income for the indicated periods.

| | Year ended 31 December | | | Ten months ended 31 October | |
|---|---|---|---|---|---|
| | 2013 | 2014 | 2015 | 2015 | 2016 |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 (unaudited) | RMB'000 |
| Revenue | 409,798 | 628,983 | 911,896 | 745,613 | 720,967 |
| Cost of sales and services | (268,194) | (456,820) | (699,435) | (572,358) | (542,084) |
| **Gross profit** | 141,604 | 172,163 | 212,461 | 173,255 | 178,883 |
| Other income, expenses gains and losses, net | 6,716 | 15,879 | 19,329 | 14,778 | 22,190 |
| Selling and distribution expenses | (5,912) | (6,645) | (8,311) | (6,897) | (7,449) |
| Administrative expenses | (30,339) | (32,913) | (38,706) | (30,745) | (33,339) |
| Listing expenses | – | – | – | – | (1,640) |
| Finance costs | (6,236) | (11,765) | (14,421) | (10,486) | (17,197) |
| Profit before tax | 105,833 | 136,719 | 170,352 | 139,905 | 141,448 |
| Income tax expense | (17,880) | (21,187) | (25,934) | (21,361) | (21,288) |
| **Profit after tax** | 87,953 | 115,532 | 144,418 | 118,544 | 120,160 |

## CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

The table below sets forth the condensed consolidated statements of our financial position as of the indicated dates.

| | As of 31 December | | | As of 31 October |
|---|---|---|---|---|
| | 2013 | 2014 | 2015 | 2016 |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| NON-CURRENT ASSETS | 830,436 | 1,152,715 | 1,650,861 | 1,954,382 |
| CURRENT ASSETS | 202,890 | 280,609 | 408,367 | 576,567 |
| CURRENT LIABILITIES | (368,700) | (572,626) | (523,699) | (659,953) |
| **NET CURRENT LIABILITIES** | (165,810) | (292,017) | (115,332) | (83,386) |
| Total assets less current liabilities | 664,626 | 860,698 | 1,535,529 | 1,870,996 |
| Total equity | 474,923 | 655,985 | 1,095,257 | 1,350,637 |
| Non-current liabilities | 189,703 | 204,713 | 440,272 | 520,359 |
| | 664,626 | 860,698 | 1,535,529 | 1,870,996 |

We recorded net current liabilities of RMB165.8 million, RMB292.0 million, RMB115.3 million and RMB83.4 million, as of 31 December 2013, 2014 and 2015 and 31 October 2016 respectively. As of 31 January 2017, we had net current liabilities of RMB20.0 million. Our net current liabilities were mainly attributable to advance from customers and other payables and our bank and other borrowings repayable in the next 12 months. Our current liabilities were primarily a result of (i) advance from customers and other payables, which was mainly advance payment from tap water customers for installation services and construction payables and deposits received and (ii) our short-term bank and other borrowings. Our Directors plan to take systematic steps to restructure our short-term and long-term loans composition, especially by increasing the amount of long-term loans applied to construction and upgrade projects, in order to improve our net current liabilities position. Our Directors confirm that we did not have any material defaults in payment of trade and other payables or bank and other borrowings, and we did not have any breach of financial covenants during the Track Record Period. Taking into account the financial resources available to us, including our cash and cash equivalents on hand, cash generated from operations, unutilised bank facilities and additional bank and debt financings we may obtain, as well as estimated net proceeds from Global Offering, our Directors believe, and the Sole Sponsor concurs, that we will be able to satisfy our liquidity requirement in the next 12 months. For more detail, please refer to "Financial Information — Description of Selected Consolidated Statements of Financial Position Items".

In addition, we recorded consolidated net tangible assets of RMB337.7 million as of 31 October 2016, which accounts for 26.6% of our consolidated equity attributable to owners of the Company on that date, primarily due to the infrastructure we constructed or acquired for the purpose of providing services pursuant to the concession arrangements, which is accounted for as intangible assets under IFRIC 12. For details, please refer to "Financial Information".

## KEY FINANCIAL RATIOS

For definitions and more details on our key financial ratios, please refer to "Financial Information — Key Financial Ratios".

## ACCOUNTING TREATMENTS OF OUR SERVICE CONCESSION ARRANGEMENTS

All of our tap water supply and wastewater treatment arrangements under BOO and TOO models are within the scope of service concession arrangements under IFRIC 12 because, in the opinion of the Directors, the Group's service concession arrangements contain the following:

- the grantors control or regulate the tap water supply and wastewater treatment services the Group must provide with the infrastructure, to whom the Group must provide such services, and at prices regulated by the grantors;
- the entire life of the infrastructure are used in the Group's service concession arrangements for providing tap water supply and wastewater treatment service and, thus, the infrastructure remained at the end of the concession period would not have significant residual value; and
- the grantors restrict the Group's practical ability to sell or pledge the infrastructure that give the grantors continuing right of use throughout the period of the arrangement.

The accounting treatment of our infrastructure as service concession arrangements has had and will continue to have a material impact on our results of operations and financial position.

The following chart sets forth a summary of our accounting treatments for our service concession arrangements:

**Criteria**

(1) The grantor of the project controls or regulates what services we must provide with the infrastructure, to whom we must provide the service, and at what price

(2) The grantor of the project controls, through ownership, beneficial entitlement or otherwise, any significant residual interest in the infrastructure at the end of the service concession arrangement or the infrastructure is used in the service concession arrangement for its entire life

(3) The infrastructure is constructed or acquired from a third party for the purpose of the service concession arrangement or is an existing infrastructure of the grantor of the project to which we are given access for the purpose of the service concession arrangement

Projects fulfilling all of (1), (2) and (3)

Projects with non-guaranteed revenue stream

| | Pre-operational stage | Operational stage |
|---|---|---|
| Statement of profit or loss and other comprehensive income | – Construction services revenue[1] recognised<br>– Construction costs expensed | – Upgrade services revenue[1] recognised<br>– Upgrade costs expensed<br>– Operation revenue (service fee received/receivable) recognised<br>– Operation costs and amortisation of intangible assets expensed |
| Statement of financial position | – Intangible assets[4] are recognised for construction services revenue | – Intangible assets[4] are recognised for upgrade services revenue<br>– Amortisation of intangible assets (recognised from construction and upgrade services) on a straight line basis over the service concession arrangements |
| Statement of cash flows | – No cash inflow from construction services revenue<br>– Payments for construction costs are included in investing activities | – No cash inflow from upgrade services revenue<br>– Payments for upgrade costs are included in investing activities<br>– Receipts of service fee are included in operating activities<br>– Payments for operation costs are included in operating activities |

Projects with guaranteed revenue stream

| | Pre-operational stage | Operational stage |
|---|---|---|
| Statement of profit or loss and other comprehensive income | – Construction services revenue[1] recognised<br>– Construction costs expensed | – Upgrade services revenue[1] recognised<br>– Upgrade costs expensed<br>– Operation revenue (service fee received/receivable less partial settlement of receivables under service concession) recognised<br>– Interest income on receivables under service concession recognised<br>– Operating costs and amortisation of intangible assets expensed |
| Statement of financial position | – Intangible assets[3][4] are initially recognised for construction services revenue | – Intangible assets[3][4] are initially recognised for upgrade services revenue<br>– When we are entitled to the guaranteed revenue stream, the portion of intangible assets (recognised from construction and upgrade services) or acquisition cost of infrastructure or fair value of existing infrastructure representing the extent that we have a contractual right to receive cash from the grantors is recognised as our receivables under service concession arrangements[2] that are carried at amortised cost and will be settled by allocation of service fee received/receivable<br>– Amortisation of intangible assets (recognised from the remaining portion of construction and upgrade services) on a straight line basis over the service concession arrangements |
| Statement of cash flows | – No cash inflow from construction services revenue<br>– Payments for construction costs are included in investing activities | – No cash inflow from upgrade services revenue<br>– Payments for upgrade costs are included in investing activities<br>– Receipts of service fee are included in operating activities<br>– Payments for operation costs are included in operating activities |

*Notes:*

(1) Based on the estimation of gross profits on a cost-plus basis as determined by an independent valuer with reference to comparable projects in the relevant period.

(2) Our receivables under service concession arrangements are initially measured based on valuation of an independent valuer and are assessed for indicators of impairment at the end of each reporting period. Impairments are made when there is objective evidence that, as a result of one or more events that occurred after their initial recognition. For further details, please refer to "Financial Information — Description of Selected Consolidated Statements of Financial Position Items — Receivables under Service Concession Arrangements".

(3) We are not entitled to and could not estimate the amount of guaranteed revenue stream until commencement of operation (including trial operation) and after getting the confirmation from the relevant government authorities according to the relevant service concession agreements.

(4) At the end of each reporting period, we review the carrying amounts of our intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). For further details, please refer to "Financial Information — Description of Selected Consolidated Statements of Financial Position Items — Intangible Assets".

During the construction phase of our tap water supply and wastewater treatment infrastructure in the pre-operational stage, we recognised non-cash revenue in respect of our construction services, which recorded in our financial information as "construction services revenue". We did not receive any payment in cash from the local government for our construction services when the relevant revenue was recognised. The actual cash inflow would only be received in the form of cash tariff payments during the operational stage of the relevant projects over the stipulated concession period. Similarly, during the upgrade phase of our tap water supply and wastewater treatment infrastructure in the operational stage, we recognised non-cash revenue in respect of the upgrade services for our existing infrastructure, which recorded in our financial information as "upgrade services revenue". We did not receive any payment in cash from the local government for our upgrade services when the relevant revenue was recognised. The actual cash inflow will only be received in the form of cash tariff payments during the operational stage of the relevant upgrade projects over the stipulated concession period. As a result, there would be a mismatch between the recognition of revenue and the underlying cash flows for such construction or upgrade projects.

During the construction phase of our tap water supply and wastewater treatment infrastructure in the pre-operational stage, we initially included the construction revenue from projects with non-guaranteed and guaranteed revenue stream according to the relevant service concession agreements in our intangible assets. Such intangible assets do not commence amortisation until the operational stage. At the end of each reporting period, we review the carrying amounts of our intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any).

During the upgrade phase of our tap water supply and wastewater treatment infrastructure in the operational stage, we initially included the upgrade revenue from projects with non-guaranteed and guaranteed revenue stream according to the relevant service concession agreements in our intangible assets. When we are entitled to the guaranteed revenue stream for projects with guaranteed revenue stream, the portion of intangible assets (recognised from construction and upgrade services) or acquisition cost of infrastructure or fair value of existing infrastructure representing the extent that we have a contractual right to receive cash from the grantors is initially measured and recognised as our receivables under service concession arrangements based on valuation of an independent valuer, Savills, that are then carried at amortised cost and will be settled by allocation of service fee received/receivable. At the end of each reporting period, we assess whether there is objective evidence that, as a result of one or more events, that occurred after the initial recognition and made impairment, if any.

The intangible assets (including those recognised from construction service for projects with non-guaranteed revenue stream and those recognised from the remaining portion of construction and upgrade services for projects with guaranteed revenue stream) commence amortisation upon operation (including trial operation) of the underlying infrastructure over the remaining tenure of the relevant concession arrangements on a straight-line basis. At the end of each reporting period, we review the carrying amounts of our intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. For details of the accounting policies on recognition, amortisation and impairment assessment of intangible assets and recognition and impairment assessment of receivables under service concession arrangements, please refer to the section "Financial Information — Critical Accounting Policies".

For further details on the accounting treatments of our service concession arrangements, please refer to the section headed "Financial Information — Accounting Treatments of Our Service Concession Arrangements".

## OUR CONTROLLING SHAREHOLDER

Immediately following the Global Offering, assuming the Over-allotment Option is not exercised, our Controlling Shareholder Xinglu Investment will, directly and indirectly through Luzhou Infrastructure, hold 66.81% of our issued Shares. Our Controlling Shareholder does not have any interest in a business which competes with, or is likely to compete with, our business, whether directly or indirectly. In order to avoid such competition, Xinglu Investment and our Company have entered into the Non-competition Agreement.

## THE FROST & SULLIVAN REPORT

Certain information included in the sections headed "Industry Overview" and "Our Business" is quoted from the Frost & Sullivan Report. The methodology used by Frost & Sullivan in gathering the relevant market data in compiling the Frost & Sullivan Report included desktop research and trade interviews. The Frost & Sullivan Report was prepared based on the following assumptions: (i) China's economy is likely to maintain steady growth in the next decade; (ii) China's social, economic, and political environment is likely to remain stable in the forecast period; and (iii) market drivers such as economic growth and increasing urbanisation rate of China, improved legislation of environmental protection are likely to drive the growth of China's municipal wastewater treatment and municipal water supply industry.

## LISTING EXPENSES

The total estimated listing expenses including underwriting commission in relation to the Global Offering (assuming an offer price of HK$2.415 per H Share, being the mid-point of the indicative Offer Price range) is expected to be approximately RMB48.7 million. During the Track Record Period, we incurred listing expenses in relation to the Global Offering of RMB19.4 million, of which RMB1.6 million was charged to our consolidated statements of profit or loss or other comprehensive income and RMB17.8 million was recognised as deferred listing expenses as included in prepayments and other receivables. We expect to incur further listing expenses in relation to the Global Offering of approximately RMB29.3 million prior to the completion of the Global Offering, of which approximately RMB5.0 million will be recognised in our consolidated statements of profit or loss and other comprehensive income and approximately RMB24.3 million will be deducted from equity upon 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 2017.

## OFFERING STATISTICS(1)

| | Based on an Offer Price of HK$2.30 per H Share | Based on an Offer Price of HK$2.53 per H Share |
|---|---|---|
| Our Company's H Share market capitalisation upon completion of the Global Offering(2) | HK$494.4 million | HK$543.8 million |
| Our Company's total market capitalisation upon completion of the Global Offering(3) | HK$1,977.3 million | HK$2,175.1 million |
| Unaudited pro forma adjusted net tangible asset value per Share(4) | HK$0.91 | HK$0.96 |

*Notes:*

(1) All statistics in the table are based on the assumption that the Over-allotment Option is not exercised.

(2) The calculation of market capitalisation is based on 214,940,000 H Shares expected to be in issue immediately following the completion of Global Offering.

(3) The calculation of market capitalisation is based on 859,710,000 Shares expected to be in issue immediately following the completion of Global Offering.

(4) The unaudited pro forma adjusted net tangible asset value per Share is calculated after making the adjustments referred to in Appendix II "Unaudited Pro Forma Financial Information" in this prospectus.

## FUTURE PLANS AND USE OF PROCEEDS

Assuming an Offer Price of HK$2.415 per H Share (being the mid-point of the indicative Offer Price range), we estimate that we will receive net proceeds of approximately HK$416.6 million from the Global Offering after deducting the underwriting commissions and other estimated expenses in connection with the Global Offering, assuming the Over-allotment Option is not exercised.

We intend to use the net proceeds of the Global Offering for the following purposes:

(i) approximately 30% will be used for constructing new tap water supply and wastewater treatment facilities in order to increase our market share in Sichuan Province, or other municipal water service related facilities in order to expand our business operations into new markets, such as water environment protection and sludge disposal;

(ii) approximately 30% will be used to finance the acquisition of tap water supply or wastewater treatment facilities to be identified by us, which will increase our production capacity;

(iii) approximately 30% will be used for repayment of a portion of our current bank borrowings; and

(iv) approximately 10% will be used to fund our working capital and general corporate purposes.

The above allocation of the proceeds will be adjusted on a pro rata basis in the event that the Offer Price is fixed at a higher or lower level compared to the midpoint of the estimated offer price range. For more details, please refer to the section "Future Plans and Use of Proceeds". We will not receive any of the proceeds from the sale of the Sale Shares by the Selling Shareholders in the Global Offering.

## DIVIDEND

During the year ended 31 December 2013, 2014 and 2015 and for the ten months ended 31 October 2016, we declared and paid dividend of approximately RMB92.1 million, RMB83.3 million, RMB12.2 million and nil, respectively. Our Directors are responsible for submitting proposals in respect of dividend payments, if any, to the Shareholders' general meeting for approval. Whether we pay a dividend and in what amount is based on our results of operations, cash flows, financial condition, cash dividends we receive from our subsidiaries, future business prospects, statutory and regulatory restrictions on the payment of dividends by us and other factors that our Directors deem relevant. Our Board has an absolute discretion to recommend any dividend for any year and we currently do not have a definitive dividend policy. There is no assurance that dividends of any amount will be declared or distributed in any year.

## SUMMARY OF MATERIAL RISK FACTORS

There are certain risks and uncertainties relating to an investment in our Shares. These risks include: (i) risks related to our municipal water service business; (ii) risks relating to conducting business in the PRC; and (iii) risks relating to the Global Offering. For more details, please refer to the "Risk Factors" section. We believe the most significant risks involved in our business and results of operations include:

- We generated all our revenue from our business operations in Luzhou Area during the Track Record Period, and our results of operations and financial condition rely heavily on the economic and social conditions of Luzhou Area;

- Changes in the relevant accounting standards on the service concession arrangements and changes in our judgements and assumptions in applying these accounting standards may have material impacts on the Group's results of operation and financial position;

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

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

- The unit retail price for tap water and the procurement price for raw water are both controlled and adjusted from time to time by the competent government authorities and we do not have control over such prices or adjustments;

- 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; and

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

## HISTORICAL NON-COMPLIANCE

Our Company and its subsidiaries had several incidents of systemic non-compliance during the Track Record Period and up to the Latest Practicable Date.

We commenced certain plant constructions before receiving the construction work planning permits, the relevant construction permits, and/or the land use right certificates.

In addition, for certain completed or on-going pipeline construction projects, we did not obtain the requisite government permits or approvals in time; and several of our tap water supply and wastewater treatment plants did not obtain or timely renew the operation certificates and the registered owner's name on an operation certificate was inconsistent with the actual owner.

As of the Latest Practicable Date, we had rectified all of the non-compliance incidents and obtained the relevant written confirmations from local government authorities which confirmed that they would not impose any administrative penalty on us due to such non-compliance incidents. We have established a series of internal control measures to prevent such non-compliance incidents in the future. Our Directors are of the view that, based on (i) the circumstances of such non-compliance incidents, many of which were not completely within our control; (ii) the fact that we have not been subject to any administrative penalty; (iii) the rectification actions we took; (iv) the government confirmations and the indemnity undertaking provided by our Controlling Shareholder; (v) the internal control measures we adopted; and (vi) the training courses our Directors attended in relation to the obligations and duties as a listed company director required by Hong Kong laws (in particular the Listing Rules and other securities regulation laws and regulations) in June 2016, our enhanced internal control measures are adequate and effective. Our Directors are eligible for being directors of a Hong Kong-listed company and our Company is eligible for listing in Hong Kong. For more details, please refer to the section headed "Our Business — Properties" and "Our Business — Non-compliance".

## RECENT DEVELOPMENT

In November 2016, we obtained an unsecured bank borrowing of RMB50.0 million which bears interest at floating rate of 4.35% per annum and has a term of one year. The borrowing is used to replace other bank loans to finance our working capital. In December 2016, we obtained a banking facility of RMB30.0 million and had drawn down an unsecured bank borrowing of RMB10.0 million from the facility, which bears a fixed annual interest rate of 4.35% and has a term of one year. The borrowing is used to finance our working capital. In December 2016, we obtained another banking facility of RMB180.0 million and had drawn down an unsecured bank borrowing of RMB90.0 million from the facility, which bears interest at floating rate of 5.1% per annum and is repayable by instalments till 2024. The borrowing is used for construction of Qiancao Supply Plant II. The loan is guaranteed by Xinglu Wastewater Treatment, one of the subsidiaries of our Company.

In February 2017, a subsidiary of the Company obtained an unsecured bank borrowing of RMB10.0 million which bears interest at a floating rate of 4.79% per annum and is repayable in February 2018. The repayment of this bank borrowing is guaranteed by another subsidiary of the Company.

The financial information as of and for the year ended 31 December 2016 have been agreed with the reporting accountant and international auditors following their review under Practice Note 730 "Guidance for Auditors Regarding Preliminary Announcements of Annual Results" issued by the Hong Kong Institute of Certified Public Accountants. Our financial information for the year ended 31 December 2016 is set out in Appendix III to this prospectus.

## NO MATERIAL ADVERSE CHANGES

Our Directors confirm that, since 31 October 2016 and up to the date of this prospectus, there had been no material adverse change in our business operations, financial and liquidity position or prospects, revenue or gross profit margin and no event has occurred that would materially affect the financial information shown in the Accountants' Report set out in Appendix I to this prospectus.

***In this prospectus, unless the context otherwise requires, the following expressions shall have the following meanings. This section also contains definitions of technical terms used in this prospectus as they relate to us and as they are used in this prospectus in connection with our business or us. Such terminology and meanings may not correspond to standard industry meanings or usages of those terms.***

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| "Application Forms(s)" | **WHITE** application form(s), **YELLOW** application form(s) and **GREEN** application form(s), or where the context so requires, any of them, relating to the Hong Kong Public Offering |
| "Articles" or "Articles of Association" | the articles of association of our Company, conditionally adopted on 2 May 2016 and as amended, supplemented or otherwise modified from time to time, a summary of which is set out in Appendix V to this prospectus |
| "associate(s)" | has the meaning ascribed to it under the Listing Rules |
| "Beijiao Supply Plant" | the tap water supply plant we operate in Longmatan District of Luzhou urban area |
| "Beijiao Water" | Luzhou Xinglu Water (Group) Beijiao Water Co., Ltd.* (瀘州市興瀘水務(集團)北郊水業有限公司), a PRC limited liability company established on 25 March 2004 and owned as to 86.78% by our Company, 1.88% by Luzhou Beiyi Asset Management Center (Limited Partnership)* (瀘州北壹資產管理中心(有限合夥)), 3.04% by Luzhou Bei'er Asset Management Center (Limited Partnership)* (瀘州北貳資產管理中心(有限合夥)) which are Independent Third Parties and 8.30% by Luzhou Zhongxu |
| "Board" or "Board of Directors" | the board of Directors of our Company |
| "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 |

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| "business day" | any day (excluding a Saturday, or a Sunday or public holiday in Hong Kong) on which licensed banks in Hong Kong are generally open for normal banking business |
| "CAGR" | compound annual growth rate, a measurement to assess the growth rate of value over a certain period calculated by dividing the relevant result at the end of the period in question by its value at the beginning of that period, raise the result to the power of one divided by the period length, and subtract one from the subsequent result |
| "CAS" | Chinese Accounting Standard |
| "CCASS" | the Central Clearing and Settlement System established and operated by HKSCC |
| "CCASS Clearing Participant" | a person admitted to participate in CCASS as a direct clearing participant or a general clearing participant |
| "CCASS Custodian Participant" | a person admitted to participate in CCASS as a custodian participant |
| "CCASS Investor Participant" | a person admitted to participate in CCASS as an investor participant, who may be an individual or joint individuals or a corporation |
| "CCASS Participant" | a CCASS Clearing Participant, a CCASS Custodian Participant or a CCASS Investor Participant |
| "Chairman" | the chairman of our Board |
| "Chengdong Treatment Plant" | the wastewater treatment plant we completed the construction and were in the process of acceptance of inspection in Longmatan District of Luzhou urban area |
| "Chengnan Treatment Plant" | the wastewater treatment plant we completed the construction and were in the process of acceptance of inspection in Jiangyang District of Luzhou urban area |
| "China" or the "PRC" | the People's Republic of China excluding, for the purpose of this prospectus, Hong Kong, Macao and Taiwan, and "Chinese" shall be construed accordingly |
| "Companies Ordinance" | the Companies Ordinance (Chapter 622 of the Laws of Hong Kong) as amended, supplemented or otherwise modified from time to time |

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| "Companies (Winding Up and Miscellaneous Provisions) Ordinance" | the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Chapter 32 of the Laws of Hong Kong) as amended, supplemented or otherwise modified from time to time |
| "Company" or "our Company" | Luzhou Xinglu Water (Group) Company Limited* (瀘州市興瀘水務(集團)有限公司), a limited liability company established on 31 July 2002 and converted into Luzhou Xinglu Water (Group) Co., Ltd.* (瀘州市興瀘水務(集團)股份有限公司), a joint stock company with limited liability on 25 December 2015 and owned as to 79.35% by Xinglu Investment, 10.92% by Luzhou Laojiao and 9.73% by Luzhou Infrastructure |
| "Concession Rights Measures" | Government rules and regulations in relation to concession rights for public utility service business in the PRC, including (i) 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 Ministry of Housing and Urban-Rural Development on 27 December 2002; (ii) 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 Ministry of Housing and Urban-Rural Development on 19 March 2004 and implemented on 1 May 2004; (iii) the Opinion of the Ministry of Construction on Strengthening the Supervision of Municipal Public Utilities* (建設部關於加強市政公用事業監管的意見) promulgated and implemented by the Ministry of Housing and Urban-Rural Development on 10 September 2005; and (iv) 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) promulgated by the NDRC, the MoF, the Ministry of Housing and Urban-Rural Development, the Ministry of Transport, the Ministry of Water Resources and the PBOC on 25 April 2015 and implemented on 1 June 2015 |
| "connected persons" | has the meaning ascribed thereto under the Listing Rules |
| "Controlling Shareholder(s)" | has the meaning ascribed thereto under the Listing Rules, and in the context of this prospectus, refers to the controlling shareholder of our Company, being Xinglu Investment |
| "CSRC" | China Securities Regulatory Commission (中國證券監督管理委員會) |

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| "Director(s)" | the director(s) of our Company |
| "Domestic Shares" | domestic invested ordinary shares in our registered capital, with a nominal value of RMB1.00 each, which are subscribed for and paid up in Renminbi and are unlisted Shares which are currently not listed or traded on any stock exchange |
| "DRC" | Development and Reform Commission (發展和改革委員會) |
| "EIT" | the enterprise income tax of the PRC |
| "EIT Law" | the Enterprise Income Tax Law of the PRC (中華人民共和國企業所得稅法) which was adopted by the National People's Congress on 16 March 2007 and became effective on 1 January 2008 |
| "Erdaoxi Treatment Plant" | the wastewater treatment plant we operate in Longmatan District of Luzhou urban area |
| "GDP" | gross domestic product |
| "Global Offering" | the Hong Kong Public Offering and the International Offering |
| "**GREEN** Application Form(s)" | the application form(s) to be completed by the **White Form eIPO** Service Provider, Computershare Hong Kong Investor Services Limited |
| "Group", "we" or "us" | our Company and its subsidiaries (or our Company and any one or more of its subsidiaries, as the context may require), or where the context so requires, in respect of the period before our Company became the holding company of its present subsidiaries, such subsidiaries as if they were subsidiaries of our Company at the relevant time |
| "Guanshan Supply Plant" | the tap water supply plant we operate in Naxi District of Luzhou urban area |
| "Gulin Treatment Plant" | the wastewater treatment plant we operate in Gulin County |

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| "H Share(s)" | overseas listed foreign invested ordinary share(s) in the registered capital of the Company, with a nominal value of RMB1.00 each, which are to be subscribed for and traded in Hong Kong dollars and for which an application has been made for the granting of listing, and permission to deal in, on the Stock Exchange |
| "H Share Registrar" | Computershare Hong Kong Investor Services Limited |
| "Hejiang Supply Plant" | the tap water supply plant we operate in Hejiang County |
| "Hejiang Treatment Plant" | the wastewater treatment plant we operate in Hejiang County |
| "Hejiang Water" | Luzhou Xinglu Water (Group) Hejiang Water Co., Ltd.* (瀘州市興瀘水務(集團)合江水業有限公司), a PRC limited liability company established on 26 April 1999 and owned as to 85.93% by our Company, 4.35% by Luzhou Zhongxu and 9.72% by 48 individual shareholders, who were our employees or Independent Third Parties as of the Latest Practicable Date |
| "HKD", "HK$" or "Hong Kong dollars" | Hong Kong dollars, the lawful currency of Hong Kong |
| "HKSCC" | Hong Kong Securities Clearing Company Limited, a wholly owned subsidiary of Hong Kong Exchanges and Clearing 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 Public Offer Shares" | the 21,494,000 H Shares being initially offered by our Company for subscription at the Offer Price pursuant to the Hong Kong Public Offering (subject to adjustment as described in the section headed "Structure of the Global Offering" in this prospectus) |

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| "Hong Kong Public Offering" | the issue and offer for subscription of the Hong Kong Public Offer Shares to the public in Hong Kong for cash (subject to adjustment as described in the section headed "Structure of the Global Offering" in this prospectus) at the Offer Price (plus brokerage, SFC transaction levies, and Stock Exchange trading fees), subject to and in accordance with the terms and conditions described in the section headed "Structure of the Global Offering — The Hong Kong Public Offering" in this prospectus and the Application Forms |
| "Hong Kong Underwriters" | the several underwriters of the Hong Kong Public Offering listed in the section headed "Underwriting — Hong Kong Underwriters" in this prospectus |
| "Hong Kong Underwriting Agreement" | the underwriting agreement dated Monday, 20 March 2017 relating to the Hong Kong Public Offering entered into by, among others, our Company and the Hong Kong Underwriters, as further described in "Underwriting" in this prospectus |
| "Huangxi Supply Plant" | the tap water supply plant we are planning to construct in Hejiang County as of the Latest Practicable Date |
| "IFRIC 12" | the International Financial Reporting Interpretations Committee Interpretation 12 |
| "IFRSs" | the International Financial Reporting Standards |
| "Independent Third Party(ies)" | person(s) or company(ies) which is(are) not a connected person(s) (as defined in the Listing Rules) of our Company |
| "International Offer Shares" | the 193,446,000 H Shares initially being offered under the International Offering (subject to adjustment and the Over-allotment Option as described in the section headed "Structure of the Global Offering" in this prospectus) |
| "International Offering" | the conditional placing of the International Offer Shares by the International Underwriters to professional, institutional, corporate and/or other investors at the Offer Price, as further described in "Structure of the Global Offering" in this prospectus |

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| "International Underwriters" | the several underwriters of the International Offering, who are expected to enter into the International Underwriting Agreement to underwrite the International Offering |
| "International Underwriting Agreement" | the underwriting agreement to be dated on or around Friday, 24 March 2017 relating to the International Offering entered into by, among others, our Company, the Selling Shareholders and the International Underwriters, as further described in "Underwriting" in this prospectus |
| "ISO" | the International Organisation for Standardisation |
| "Jiangnan Water" | Luzhou Xinglu Water Group Jiangnan Water Co, Ltd.* (瀘州市興瀘水務集團江南水業有限公司), a PRC limited liability company established on 7 March 2003 and owned as to 49.96% by our Company, 44.19% by Luzhou Zhongxu and 5.85% by 29 individual shareholders who were our employees or Independent Third Parties as of the Latest Practicable Date |
| "Joint Bookrunners" | BOCOM International Securities Limited, First Capital Securities Limited and Haitong International Securities Company Limited |
| "Joint Lead Managers" | BOCOM International Securities Limited, First Capital Securities Limited and Haitong International Securities Company Limited |
| "Lantian Supply Plant" | the tap water supply plant we operate in Jiangyang District of Luzhou urban area |
| "Latest Practicable Date" | Monday, 13 March 2017, being the latest practicable date for the purposes of ascertaining certain information contained in this prospectus |
| "Listing" | listing of the H Shares on the Main Board |
| "Listing Committee" | the listing committee of the Stock Exchange |
| "Listing Date" | the date on which dealings in the H Shares first commence on the Stock Exchange |
| "Listing Rules" | the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited |
| "Lu County Treatment Plant" | the wastewater treatment plant we operate in Lu County |

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| "Luzhou Area" | an area in Luzhou that includes four counties (Lu County, Hejiang County, Xuyong County and Gulin County) and Luzhou urban area that comprises three districts (Jiangyang District, Longmatan District and Naxi District) |
| "Luzhou Infrastructure" | Luzhou City Infrastructure Investment Co., Ltd.* (瀘州市基礎建設投資有限公司), a PRC limited liability company established on 29 May 2001 and owned as to 79.13% by Xinglu Investment, 20.86% by CDB Development Fund Co., Ltd.* (國開發展基金有限公司) and 0.01% by Luzhou Xinglu Jutai Real Estate Co., Ltd.* (瀘州興瀘居泰房地產有限公司), a wholly-owned subsidiary of Xinglu Investment, respectively |
| "Luzhou Laojiao" | Luzhou Laojiao Group Co., Ltd.* (瀘州老窖集團有限責任公司), a PRC limited liability company established on 21 December 2000 and wholly owned by Luzhou SASAC |
| "Luzhou Zhongxu" | Luzhou Zhongxu Asset Investment Co., Ltd.* (瀘州市中旭資產投資有限公司), a PRC limited liability company established on 13 March 2006 and owned as to 80% by Luzhou Industrial Investment Group Co., Ltd. * (瀘州市工業投資集團有限公司) and 20% by Luzhou State-owned Assets Management Limited* (瀘州國有資產經營有限公司), being Independent Third Parties, respectively |
| "Main Board" | the stock market operated by the Stock Exchange which is independent from and operated in parallel to the Growth Enterprise Market of the Stock Exchange |
| "Mandatory Provisions" | the Mandatory Provisions for Articles of Association of Companies to be Listed Overseas (到境外上市公司章程必備條款), for inclusion in the articles of association of companies incorporated in the PRC to be listed overseas, promulgated by the former State Council Securities Commission and other PRC government departments on 27 August 1994, as amended, supplemented or otherwise modified from time to time |
| "MoF" | the Ministry of Finance of the PRC (中華人民共和國財政部) |
| "Nanjiao Supply Plant" | the tap water supply plant we operate in Jiangyang District of Luzhou urban area |
| "Nanjiao Supply Plant II" | the tap water supply plant we are currently constructing in Jiangyang District of Luzhou urban area |

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| "Nanjiao Water" | Luzhou Nanjiao Water Co., Ltd.* (瀘州市南郊水業有限公司), a PRC limited liability company established on 18 September 2002 and owned as to 45.79% by our Company, 43.83% by Luzhou Zhongxu and 10.38% by 46 individual shareholders who were our employees or Independent Third Parties as of the Latest Practicable Date |
| "Naxi Treatment Plant" | the wastewater treatment plant we operate in Naxi District of Luzhou urban area |
| "Naxi Water" | Luzhou Xinglu Water (Group) Naxi Water Co., Ltd.* (瀘州市興瀘水務(集團)納溪水業有限公司), a PRC limited liability company established on 17 March 2003 and owned as to 76.64% by our Company, 21.78% by Luzhou Zhongxu and 1.58% by six individual shareholders who were our employees or Independent Third Parties as of the Latest Practicable Date |
| "NDRC" | the National Development and Reform Commission of the PRC (中華人民共和國國家發展和改革委員會) |
| "Non-competition Agreement" | a non-competition agreement dated 10 March 2017 entered into by our Controlling Shareholder in favour of our Company, details of which are disclosed in the subsection headed "Relationship with Our Controlling Shareholder — Non-Competition Agreement" in this prospectus |
| "NSSF" | the National Council for Social Security Fund of the PRC (全國社會保障基金理事會) |
| "Offer Price" | the final Hong Kong dollar price per Offer Share (exclusive of brokerage, SFC transaction levies, and Stock Exchange trading fees) of not more than HK$2.53 and expected to be not less than HK$2.30, such price to be agreed upon by our Company (for ourselves and on behalf of the Selling Shareholders) and the Sole Global Coordinator (for itself and on behalf of the Underwriters) on or before the Price Determination Date |
| "Offer Shares" | the Hong Kong Public Offer Shares and the International Offer Shares together, where relevant, with additional H Shares issued under the exercise of the Over-allotment Option |

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| "Over-allotment Option" | the option granted by us and the Selling Shareholders to the International Underwriters, exercisable by the Sole Global Coordinator on behalf of the International Underwriters, pursuant to which we may be required to allot and issue and the Selling Shareholders may be required to sell up to 32,241,000 additional H Shares (representing up to 15% of the H Shares initially being offered under the Global Offering) at the Offer Price to, among other things, cover over-allocations in the International Offering, details of which are described in the section headed "Structure of the Global Offering" in this prospectus |
| "PBOC" | the People's Bank of China (中國人民銀行), the central bank of the PRC |
| "PRC Company Law" | the Company Law of the PRC (《中華人民共和國公司法》), as enacted by the Standing Committee of the Eighth National People's Congress on 29 December 1993 and effective on 1 July 1994, as amended, supplemented or otherwise modified from time to time |
| "PRC GAAP" | the PRC Accounting Standards for Business Enterprises, and the Application Guidance for Accounting Standard for Business Enterprise and interpretation of Accounting Standards for Business Enterprise and other relevant regulations |
| "PRC government" or "state" | the government of the PRC including all political subdivisions (including provincial, municipal and other regional or local government entities) and their instrumentalities thereof or, where the context requires, any of them |
| "Price Determination Date" | the date, expected to be on or around Friday, 24 March 2017 but no later than Wednesday, 29 March 2017, on which the Offer Price is fixed for the purposes of the Global Offering |
| "Province" or "province" | each being a province or, where the context requires, a provincial level autonomous region or municipality under the direct supervision of the central government of the PRC |
| "Qiancao Supply Plant" | the tap water supply plant we operate in Jiangyang District of Luzhou urban area |

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| "Qiancao Supply Plant II" | the tap water supply plant we are currently constructing in Jiangyang District of Luzhou urban area |
| "Regulation S" | Regulation S under the Securities Act |
| "Reporting Accountants" | Deloitte Touche Tohmatsu |
| "RMB" or "Renminbi" | Renminbi, the lawful currency of the PRC |
| "SAFE" | State Administration of Foreign Exchange of the PRC (中華人民共和國國家外匯管理局) |
| "Sale Shares" | the 19,540,000 H Shares converted from Domestic Shares initially to be sold by the Selling Shareholders in the Global Offering (assuming the Over-allotment Option is not exercised); and, where relevant, any additional H Shares converted from Domestic Shares which may be sold by the Selling Shareholders pursuant to the exercise of the Over-allotment Option |
| "SASAC" | State-owned Assets Supervision and Administration Commission (國有資產監督管理委員會) |
| "SAT" | State Administration of Taxation of the PRC (中華人民共和國國家稅務總局) |
| "Securities Act" | the U.S. Securities Act of 1933, as amended, supplemented or otherwise modified from time to time |
| "Selling Shareholders" | the state-owned Shareholders, collectively, who are required to reduce their shareholding pursuant to the relevant PRC regulations relating to reduction of state-owned shares as further listed out in the section headed "Statutory and General Information — 5. Other Information — P. Particulars of the Selling Shareholders" in Appendix VI to this prospectus |
| "SFC" | the Securities and Futures Commission of Hong Kong |
| "SFO" or "Securities and Futures Ordinance" | the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time |
| "Share(s)" | ordinary shares of RMB1.00 each in the registered capital of our Company |
| "Shareholders" | holder(s) of the Share(s) |

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| "Sitong Design" | Luzhou Sitong Water Supply and Drainage Engineering Design Co., Ltd.* (瀘州市四通給排水工程設計有限公司), a PRC limited liability company established on 6 September 2002 and owned as to 67.38% by our Company, 29.66% by Luzhou Zhongxu and 2.96% by 21 individual shareholders who were our employees or Independent Third Parties as of the Latest Practicable Date |
| "Sitong Engineering" | Luzhou Sitong Tap Water Engineering Co., Ltd.* (瀘州市四通自來水工程有限公司), a PRC limited liability company established on 2 September 2002 and owned as to 79.38% by our Company, 18.64% by Luzhou Zhongxu and 1.98% by 13 individual shareholders who were our employees or Independent Third Parties as of the Latest Practicable Date |
| "SOE" | state-owned enterprise |
| "Sole Global Coordinator" | BOCOM International Securities Limited, a corporation licensed under the SFO and permitted to carry on Type 1 (dealing in securities), Type 2 (dealing in futures contracts), Type 4 (advising on securities) and Type 5 (advising on futures contracts) regulated activities |
| "Sole Sponsor" | BOCOM International (Asia) Limited, a corporation licensed under the SFO and permitted to carry on Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities |
| "Special Regulations" | 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), promulgated by the State Council on 4 August 1994, as amended, supplemented or otherwise modified from time to time |
| "sq.m." | square metre(s) |
| "Stabilising Manager" | BOCOM International Securities Limited |
| "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 |
| "subsidiary(ies)" | has the meaning ascribed to it under the Listing Rules, unless the context otherwise requires |

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| "Supervisor(s)" | the member(s) of the Supervisory Committee |
| "Supervisory Committee" | the supervisory committee of our Company |
| "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 |
| "Track Record Period" | the three financial years ended 31 December 2015 and the ten months ended 31 October 2016 |
| "Triggering Events" | the triggering events described in the table under section headed "Financial Information — Accounting Treatment of Our Service Concession Arrangements — Summary of accounting treatment for our BOO and TOO Projects" of this prospectus |
| "Underwriters" | the Hong Kong Underwriters and the International Underwriters |
| "Underwriting Agreements" | the Hong Kong Underwriting Agreement and the International Underwriting Agreement |
| "United States" or "U.S." | the United States of America |
| "US dollars", "USD" or "US$" | United States dollars, the lawful currency of the United States |
| "VAT" | value-added tax |
| "**White Form eIPO**" | the application for Hong Kong Public Offer Shares to be issued in the applicant's own name by submitting applications online through the designated website for the **White Form eIPO** Service Provider at **www.eipo.com.hk** |
| "**White Form eIPO** Service Provider" | Computershare Hong Kong Investor Services Limited |

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| "Xiangjiaba Irrigation Construction and Development" | Sichuan Xiangjiaba Irrigation Construction and Development Co., Ltd.* (四川省向家壩灌區建設開發有限責任公司), a PRC limited liability company established on 22 September 2013 and owned as to 17.51% and 82.49% by the Company and other three shareholders who are Independent Third Parties, respectively |
| "Xinglu Investment" | Luzhou City Xinglu Investment Group Co., Ltd.* (瀘州市興瀘投資集團有限公司), our Controlling Shareholder, a PRC limited liability company established on 28 January 2003 and owned as to 100% by Luzhou SASAC |
| "Xinglu Wastewater Treatment" | Luzhou Xinglu Wastewater Treatment Co., Ltd.* (瀘州市興瀘污水處理有限公司), a PRC limited liability company established on 11 December 2000 and owned as to 98.00% by our Company and 2.00% by Xinglu Investment, our Controlling Shareholder |
| "Xinglu Water Crystal Mall" | Luzhou Xinglu Water (Group) Crystal Mall Co., Ltd.* (瀘州市興瀘水務(集團)水晶商場有限公司), formerly known as Luzhou Crystal Mall* (瀘州市水晶商場), a PRC limited liability company established on 23 February 1996 and a directly wholly-owned subsidiary of our Company |
| "Xuyong Treatment Plant" | the wastewater treatment plant we operate in Xuyong County |
| "Yaerdang Treatment Plant" | the wastewater treatment plant we operate in Jiangyang District of Luzhou urban area |
| "%" | per cent |

*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 Chinese and English languages and in the event of any inconsistency, the Chinese versions shall prevail.*

This prospectus contains forward-looking statements that are, by their nature, subject to significant risks and uncertainties. These forward-looking statements include, without limitation, statements relating to:

- our business and operating strategies and plans for the development of our businesses, our ability to implement such strategies and plans, and the expected timetable of such implementation;
- our financial condition;
- our dividend distribution plans;
- the prospects of our business and operations, including development plans for our businesses;
- the regulatory environments, as well as the general industry outlooks, for the municipal water service industries in the PRC;
- further developments in, and competitive environments for, the municipal water service industries in the PRC; and
- the general economic trends of the PRC.

The words "aim", "anticipate", "believe", "contemplate", "continue", "could", "expect", "going forward", "intend", "may", "ought to", "plan", "potential", "predict", "project", "schedule", "seek", "should", "target", "will", "would", and the negatives forms of these terms, as well as similar expressions, as they relate to us, are intended to identify a number of these forward-looking statements. These statements reflect the current views of our management with respect to future events and are subject to certain risks, uncertainties and assumptions, including the risk factors described in this prospectus. Hence, should one or more of these risks or uncertainties materialise, or should underlying assumptions prove to be incorrect, our financial condition may be adversely affected and may vary materially from those described herein as anticipated, believed, estimated or expected. Accordingly, such statements are not a guarantee of future performance and you should not place undue reliance on such forward-looking information. We undertake no obligation to publicly update or revise any forward-looking statements contained in this prospectus, whether as a result of new information, future events or otherwise, except as required by applicable laws, rules and regulations. All forward-looking statements contained in this prospectus are qualified by reference to the cautionary statements set out in this section. Our Directors have confirmed that the forward-looking statements contained in this prospectus are made after due and careful consideration and on the basis and assumptions that are fair and reasonable.

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

***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.***

There are certain risks and uncertainties involved in our operations and this Global Offering, some of which are beyond our control. We have categorised these risks and uncertainties into: (i) risks relating to our business and industry; (ii) risks relating to doing business in the PRC; and (iii) risks relating to the Global Offering.

## RISKS RELATING TO OUR BUSINESS AND INDUSTRY

**We generated all our revenue from our business operations in Luzhou Area during the Track Record Period, and our results of operations and financial condition rely heavily on the economic and social conditions of Luzhou Area.**

During the Track Record Period, all our revenue was generated from our operations in Luzhou Area. While we look for opportunities to grow our operations outside Luzhou Area, we expect that Luzhou Area will continue to be our principal market and place of operations in the foreseeable future.

In light of the concentration of our businesses in Luzhou Area, we are exposed to risk associated with such region. As the largest tap water supplier in terms of supply capacity in Luzhou Area with a market share of approximately 83.0% and the sole wastewater treatment service provider in Luzhou Area, we have limited potential to further expand our business coverage in Luzhou Area. According to the Thirteenth Five-year Plan of Luzhou, the urban area of Luzhou Area is expected to expand from approximately 120 sq.km in 2015 to 200 sq.km in 2020 and the corresponding urban population is expected to increase from approximately 1.2 million in 2015 to 2.0 million in 2020. However, the projected increase in population, urbanisation rate and economic growth in Luzhou Area may not be actually materialised. Accordingly, demand for municipal water service in Luzhou Area may not increase to the extent expected or at all. As a result, our business growth may depend, to a greater extent, on the increases in unit tariff price and tariff of our services that are generally out of our control rather than the increase in demand of municipal water service in Luzhou Area. We cannot assure you that the economy in Luzhou Area will continue to develop as anticipated, or that the macro or local economic environment will not change adversely. If Luzhou Area experiences any material adverse economic or social conditions due to events beyond our control, our business, financial condition, results of operations and prospects may be materially and adversely affected.

**Changes in the relevant accounting standards on the service concession arrangements and changes in our judgements and assumptions in applying these accounting standards may have material impacts on the Group's results of operation and financial position.**

We applied IFRIC 12 and other relevant accounting standards on our service concession arrangements. These standards may be changed or amended in the future from time to time. Any changes in these accounting standards may result in changes in recognition, measurement and/or classification of our revenue, expenses, assets and liabilities that could have material impact on our results of operation and financial position. Besides, in the application of these accounting standards, we are required to apply our judgement and make estimates and assumptions for our revenue, expenses, assets, liabilities, as well as our cash flow projections of our tap water and wastewater treatment projects. These estimates and assumptions are not readily apparent from other sources and are based on historical experience and other factors that are considered to be relevant. Should actual results be different from these estimates and assumptions, we may change these estimates and assumptions that would materially affect our results of operation and financial position.

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

Our customers in the wastewater treatment business are local government authorities in Luzhou Area. As such, our operations may be adversely affected as a result of changes in the relevant government authorities' budgets or policies relating to our projects and any deterioration in the liquidity and cash flow of the local governments could result in delays in project commencement or completion, adverse changes to such projects or a withholding of, or delay in, tariff payment to us.

The PRC government's spending on infrastructure and other construction projects has historically been, and will continue to be, cyclical in nature and subject to fluctuations in China's economy and changes in the PRC government's policies. Any change in such policies may also materially and adversely affect our existing and future wastewater treatment projects.

Furthermore, in some circumstances, local governments may require us to change our construction methods, equipment or other performance terms; direct us to reconfigure our designs or 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 local governments with respect to such changes may be time-consuming and may cause us to incur additional costs.

Moreover, any disputes with governmental entities could potentially lead to contract termination if unresolved or may take a considerably longer period of time to resolve as compared to disputes with counterparties in the private sector, and payments due to us from these government entities may be delayed as a result. In addition, such government entities may claim sovereign immunity as a defense to any claims we may make against them. If a governmental entity 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 also depend on the timely construction and proper operation of the pipeline network owned by the PRC government for our wastewater treatment operations. However, we cannot assure you the proper operation of such pipelines. In the event that there is any defect in the pipelines, which delays or otherwise obstructs the supply of wastewater to our wastewater treatment facilities, the wastewater treatment process may be substantially disrupted and our ability to process wastewater in a timely manner may be materially and adversely affected.

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

Both tap water supply and wastewater treatment are industries where regulatory standards play a critical role in influencing the demand and returns for our services. Any changes in legislative, regulatory or industrial requirements may render certain of our tap water supply and wastewater treatment facilities obsolete. Currently, we operate as a municipal water service provider in Sichuan Province, and we enjoy certain government grants from local government authorities as well as certain beneficial tax treatment. For more details, please refer to "Financial Information — Description of Selected Line Items in Consolidated Statements of Profit or Loss and Other Comprehensive Income — Other Income, Expenses, Gains and Losses, Net" and "Financial Information — Description of Selected Line Items in Consolidated Statements of Profit or Loss and Other Comprehensive Income — Income Tax Expense". Some of our government grants and beneficial tax treatments are conditional upon our operations satisfying specific requirements. We cannot assure you that we would continue to qualify for such government grants or beneficial tax treatment.

Our concession agreements with the local government authorities generally provide that the tap water we produce or the discharged wastewater after treatment should meet the applicable national standards as set forth by relevant rules and regulations. Any changes in these regulations or standards for tap water or wastewater treatment may make it necessary for us to adopt new technologies or to improve our existing technologies, which in turn may require the renovation or upgrade of existing facilities. Such renovation or upgrade could require more financial, human or other resources. 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.

**We are subject to risks associated with changes in government's practices, interpretation or implementation of laws, regulations and policies for tap water supply and wastewater treatment services in the PRC.**

Both tap water supply and wastewater treatment are industries where governments at various levels in the PRC play a critical role in influencing the industry practices, interpretation and implementation of the relevant laws and regulations. For example, the PRC government has adopted policies and plans favourable to the environmental protection industry, and has stated its intentions to increase its spending in such industry. However, we cannot assure you that the government will indeed execute such plans and policies. Nor could we predict the precise impact on the tap water supply and wastewater treatment industries arising from the actual implementation of such plans and policies. If the government withdraws or suspends in executing its favourable plans and policies to environmental protection in the future, our growth and prospects could be materially and adversely affected.

**The unit retail price for tap water and the procurement price for raw water are both controlled and adjusted from time to time by the competent government authorities and we do not have control over such prices or adjustments.**

According to the PRC Pricing Law, the PRC government may direct, guide or fix the prices of public utilities. NDRC sets the guideline unit retail prices for tap water, and makes adjustment to such prices from time to time. In Luzhou Area, Luzhou DRC, Hejiang DRC and Lu County DRC set the tap water retail price in Luzhou urban area, Hejiang County and Lu County respectively, and may adjust such prices from time to time. In addition, the unit procurement price for raw water is also set by the relevant local government authorities. For more details, please refer to the section headed "Regulatory Environment" and "Our Business — Our Tap Water Supply Services — Pricing". Our revenue and gross profit margin of our tap water supply business are directly impacted by the unit retail price for tap water and the unit procurement price for raw water, over which we do not have control. If there is any increase in our actual costs in relation to our tap water supply, there is no guarantee that the relevant local government would adjust in a timely manner the unit retail price for tap water or the procurement price for raw water to fully reflect such increase. The occurrence of the foregoing could adversely affect our financial condition and results of operations.

**The interests of our Controlling Shareholder may conflict with the interest of our other Shareholders and the Group in certain circumstances.**

The ultimate beneficial owner* (實際控制人) of our Controlling Shareholder, Xinglu Investment, is Luzhou State-owned Assets Supervision and Administration Commission* (瀘州市國資委), which is in turn controlled by Luzhou City Government* (瀘州市人民政府). On the one hand, Luzhou City Government and its supervising authorities play a critical role, and may take various factors into consideration, including the interests of the local government authorities, as the price setter for the tap water retail price and the unit procurement price for raw water, and as our customers in our waste water treatment business, in influencing the industry practices, interpretation and implementation of the relevant laws and regulations in relation to our tap water supply and wastewater treatment business. On the other hand, our operation is sensitive to changes in regulations and policies for tap water supply and wastewater treatment services. For example, we enjoy certain preferential tax treatments, and receive guaranteed minimum treatment tariff from the local government for certain wastewater treatment plants. In addition, the relevant local government authorities of Luzhou City Government set the tap water retail price and the unit procurement price for raw water. Any future changes in regulations and policies for tap water supply and wastewater treatment services may adversely affect our business operation and results of operation and may not be in line with the interests of our other Shareholders and the Company as a whole. As a result, the interests of our Controlling Shareholder may not be in line with the interests of our other Shareholders and the Group as a whole.

**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, licenses and certificates, including the relevant concession rights, from various competent government authorities and complete the environmental impact assessment in order to develop and operate each of our wastewater treatment and water supply projects. Details of the approvals, permits, licenses and certificates we are required to obtain or maintain are set out in "Regulatory Environment". During the Track Record Period, we failed to obtain approvals, permits, licenses and certificates for certain of our lands, buildings, tap water supply and wastewater treatment infrastructure, which are necessary to our daily operations. For details, please refer to the section "Our Business — Properties" and "Our Business — Non-compliance".

In addition, some of these approvals, licenses, permits and certificates are subject to periodic review and renewal by the competent government authorities and the standards for compliance required in relation thereto may, from time to time, be subject to change. Any changes in the existing policies by the competent government authorities which result in the imposition of more burdensome requirements may result in our failure to obtain or maintain such approvals, permits, licenses and certificates. Any such failure could subject us to fines 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.

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

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

The quality of our supply of tap water and treated wastewater depends on the normal operation of our plants. We are subject to risks of unknown or undiscovered defects or compatibility problems with our equipment. We cannot assure you that our staff will always be able to timely discover and repair malfunctioning equipment or any other problems with our treatment process or plants. In these instances, our plants may 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 plants. The occurrence of any of the foregoing could have a material and adverse effect on our business, financial condition, results of operations and prospects.

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 plants, 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 plants 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.

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

The tariff for wastewater treatment applicable to our treatment facilities were individually negotiated with the relevant local government authorities with reference to relevant rules and regulations. As such, we do not have total control over such price. For more details, please refer to the section headed "Regulatory Environment". We cannot assure you that we would be successful in arriving at an agreement with the local government authorities or we can obtain price adjustment in a timely manner or that the increased tariffs will sufficiently compensate us for our increased cost. 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.

**Our pipeline construction and maintenance and plant construction projects are subject to construction and operational risks.**

Pipeline construction and maintenance in our tap water supply business and the plant construction projects involve various risks, including, amongst others, construction and operational risks. The construction and operation of our projects, including any new project that we undertake, could be materially and adversely affected due to a number of factors, including:

- the contractors hired by us may not be able to complete the construction or installation work of our projects on time, within budget or to the specifications or quality, safety and environmental standards we have set out in our contracts with them;

- shortages of, and price increases in, equipment, materials or labour;

- changes in laws and regulations, or in the interpretation or enforcement of laws or regulations, applicable to our projects;

- accidents during construction or operations of our wastewater treatment facilities;

- extreme adverse weather conditions, or fire, typhoons or other natural disasters;

- engineering, construction, regulatory and equipment problems;
- raw material suppliers for our projects may not supply the required raw materials in the expected quantities/quality or at all;
- governmental or other statutory approvals or other approvals that are required for construction, expansion or operation of our projects may be delayed or denied;
- delays in construction or commercial operation could increase financial cost of our business operations; and
- we may not be able to accurately estimate the pollutant levels in the wastewater entering our wastewater treatment facilities.

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

**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.**

Construction, acquisition and/or renovation of our water supply and wastewater treatment infrastructure require us to incur significant capital expenditures. For the years ended 31 December 2013, 2014 and 2015 and for the ten months ended 31 October 2016, we incurred payments of RMB126.3 million, RMB344.4 million, RMB433.4 million and RMB253.9 million, respectively for purchasing of property, plant and equipment, investment properties, prepaid lease payments and construction and upgrade services of our water supply infrastructure and wastewater treatment infrastructure. We also expect to incur significant capital expenditure for our current and future projects that are currently at the planning stage. We estimate that our planned capital expenditures for ongoing construction and upgrade services including projects that are currently at the planning stage for the year ending 31 December 2017 to be approximately RMB221.8 million.

For the financial year ending 31 December 2018, the Company expected to incur capital expenditure amounted to approximately RMB362.8 million.

After the financial year ending 31 December 2018, the Company expected to incur capital expenditure amounted to approximately RMB110.8 million.

For more details regarding our planned capital expenditure, please refer to sections headed "Our Business — Project and Operation Management — Construction of plants — Construction Projects for Tap Water Supply Plants", "Our Business — Project and Operation Management — Construction of plants — Construction Projects for Wastewater Treatment Plants" and "Financial Information — Capital Expenditure — Planned Capital Expenditures".

During the Track Record Period, we relied in part on external sources of funding, including bank borrowings and loans from our shareholder, to fund the construction and renovation of our water supply plants and wastewater treatment plants. As of 31 December 2013, 2014 and 2015 and 31 October 2016, our total outstanding bank and other borrowings were approximately RMB114.7 million, RMB389.3 million, RMB490.9 million and RMB595.3 million, respectively. Our gearing ratio as of these dates was 3.6%, 25.0%, 15.5% and 14.5%, respectively. For more details, please refer to "Financial Information — Indebtedness".

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 tap 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 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 recognise revenue during the construction phase of our construction and upgrade projects, but typically do not receive any cash inflow from the relevant infrastructure until such infrastructure is put into operation.**

We recognise revenues from different segments of our business. On the one hand, we recognise revenue relating to our tap water supply and wastewater treatment operations other than the construction and upgrade services of tap water supply and wastewater treatment infrastructures only when we provide the relevant services under the operational phase, and we normally expect to receive the cash flow matching the recognised revenue.

On the other hand, we recognise revenue in connection with the construction and upgrade services of our tap water supply and wastewater treatment infrastructure of our operational and pre-operational projects. For more details, please refer to "Financial Information — Critical Accounting Policies — 1. Service Concession Arrangements". Revenue recognised from construction or upgrade services of the existing or new infrastructure of our projects accounted for 24.6%, 41.8%, 53.6% and 46.8% of our revenue for the years ended 31 December in 2013, 2014 and 2015 and the ten months ended 31 October 2016, respectively. However, we typically do not receive payments from the relevant government authorities during construction or upgrade of our infrastructure of these projects. We may only receive cash inflow in the form of cash tariff payments according to the relevant concession agreements after the relevant infrastructure is put into operation. As a result, an increase in our revenue and profit for a financial period may not be matched by a corresponding increase in our cash inflow generated from operating activities, 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.

The revenue recognised from construction or upgrade services of the existing or new infrastructure of our operational and pre-operational projects during the construction phase of our construction and upgrade projects is included in our intangible assets and may be subsequently transferred to receivables from service concession arrangements due to guaranteed payment from local government. The recoverability of our intangible assets and receivables from service concession arrangements depends on the cash inflows from operation of the relevant infrastructure up to 30 years. There is no guarantee that the intangible assets and receivables from service concession arrangements would be fully recoverable before the expiration of the relevant concession period, which may cause an impairment of our intangible assets and financial assets and adversely affect our results of operations and liquidity.

**We recorded net current liabilities during the Track Record Period and we cannot assure you that we will not be in a net current liabilities position in the future.**

We recorded net current liabilities of RMB165.8 million, RMB292.0 million, RMB115.3 million and RMB83.4 million, as of 31 December 2013, 2014 and 2015 and as of 31 October 2016, respectively. As of 31 January 2017 we had net current liabilities of RMB20.0 million. Our current liabilities consisted primarily of (i) advance from customers and other payables in the amount of RMB230.8 million, RMB161.1 million, RMB218.7 million and RMB310.1 million, as of 31 December 2013, 2014 and 2015 and 31 October 2016, respectively; and (ii) our short-term bank and other borrowings payable in the next 12 months of RMB74.8 million, RMB354.9 million, RMB251.4 million and RMB303.7 million, as of 31 December 2013, 2014 and 2015 and 31 October 2016, respectively. Our advances from customers and other payables consisted of construction payables and deposits received and purchases of wastewater treatment infrastructure payables, both in connection with the construction and upgrade of our tap water supply and wastewater treatment infrastructure. Our advances from customers and other payables also consisted of salaries and welfare payable to our employees and payables to governmental bureau. During the Track Record Period, we used part of our self-generated capital to fund the plant construction and expansion projects, which in turn made it necessary to use bank borrowings as a supplemental source for working capital. For more details, please refer to "Financial Information — Description of Selected Consolidated Statements of Financial Position Items".

There can be no assurance that our business will generate sufficient cash flows from operations in the future to serve our debts. If we are unable to do so, we may face a deficiency of working capital and may not be able to service outstanding debts payable in the next 12 months. Any of these events could have a material adverse impact on our business and results of operations.

**During the Track Record Period, we were granted concession rights for all of our concession projects by local government authorities who did not conduct a public bidding and tendering process required by the Concession Rights Measures and the grant of such concession projects may be deemed ineffective as a result.**

During the Track Record Period, we were granted concession rights for all of our concession projects by local government authorities who did not conduct a public bidding and tendering process. Please refer to the section headed "Our Business — Project and Operation Management — Tender and Acquisition Procedures — Concession Rights to Conduct Tap Water Supply Operations" for more details. As advised by our PRC legal adviser, pursuant to the Concession Rights Measures, governments should select operators of municipal public utilities treatment projects, such as water supply and wastewater treatment, through public bidding, and enter into concession agreements to grant concession rights to the winner of the bid. Please refer to the paragraphs headed "Regulatory Environment — Concession in Municipal Public Utilities Projects" for details. However, there is no explicit legal consequence for not following the Concession Rights Measures.

We cannot assure you that our concession projects will not be deemed ineffective 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 tender process or that no penalties will be imposed on us. Furthermore, we cannot assure you that future actions or interpretation of the Concession Rights 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 tender process. All of these could materially and adversely affect our business, financial condition and results of operations.

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

Our treatment plants are subject to normal wear and tear in the course of construction and operation. As a result, our plants 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 plants 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 supply tap water or treat wastewater 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.

In addition, each of our plants has been or will be built to a specified designed capacity in accordance with the terms of the relevant agreements with our customers. In 2013, 2014 and 2015 and the ten months ended 31 October 2016, the average utilisation rate of our water supply plants was 84.0%, 89.9%, 94.6% and 93.0%, respectively, and the average utilisation rate of our wastewater treatment plants was 83.3%, 91.5%, 86.7% and 92.4%, respectively. The utilisation rates of our water supply and wastewater treatment plants 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 tap water to be supplied or wastewater to be treated, which may not be realised.

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

The tap water supply and wastewater treatment services industries in the PRC are highly fragmented, with a large number of service providers operating in the markets. We compete primarily with state-owned and privately-owned 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 tap water supply service providers 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 may undertake acquisitions, investments, joint ventures or other strategic alliances, which may not be successful or have a material adverse effect on our ability to manage our business.**

Our strategy includes plans to grow both organically and through acquisitions, participation in joint ventures or other strategic alliances with suppliers or other companies in China along the environmental protection industry value chain. Acquisitions of companies or businesses and participation in joint ventures or other strategic alliances are subject to considerable risks, including:

- our inability to integrate new operations, personnel, products, services and technologies;
- unforeseen or hidden liabilities, including exposure to lawsuits associated with newly acquired companies;
- the diversion of financial or other resources from our existing businesses and technologies;
- disagreement with joint venture or strategic alliance partners;
- contravention of regulations governing cross-border investment;
- failure to comply with laws and regulations as well as industry or technical standards of the markets into which we expand;
- exposure to operation, regulatory, market and geographic risks and additional capital requirements;

- our inability to generate sufficient revenues to offset the costs and expenses of acquisitions, strategic investments, joint venture formations or other strategic alliances; and

- potential loss of, or harm to, employees or client relationships.

Any of the above risks could significantly impair our ability to manage our business and materially and adversely affect our business, results of operations and financial condition. 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.

**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 that are essential to our operations.**

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. 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.

Our operations at tap water supply and wastewater treatment plants depend on the adequate, timely and continuous supply of electricity. We currently obtain our electricity from public electricity networks. Many cities and provinces in the PRC have suffered serious power shortages in recent years. 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.

In addition, our business is 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.

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 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.

**We are exposed to default risk by our subcontractors under the relevant subcontracts.**

We generally subcontract our construction work for tap water supply and wastewater treatment plants to third party contractors. While we have provided certain provisions in our standard subcontract form to mitigate the risk of default by our subcontractors, there is no assurance that our subcontractors would perform all of their obligations pursuant to the relevant subcontracts. If any of our subcontractors defaults under the relevant subcontract, we may not be able to complete our construction work for the relevant tap water supply plant on time, which could materially and adversely affect our water supply business.

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

During the Track Record Period, we relied on bank and other borrowings to finance the construction of our projects. As of 31 December 2013, 2014, 2015 and 31 October 2016, our outstanding bank and other borrowings were RMB114.7 million, RMB389.3 million, RMB490.9 million and RMB595.3 million, respectively. Please refer to the section "Financial Information — Indebtedness".

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.

We cannot assure you that we will be able to obtain the lending banks' consent for any of the activities restricted by the covenants. 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.

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

During the Track Record Period, we received subsidies granted by the local governments as financial incentives to encourage our development and investment in the PRC wastewater treatment and water supply industries. For the years ended 31 December 2013, 2014, 2015 and the ten months ended 31 October 2016, we recognised government grants of approximately RMB12.2 million, RMB8.7 million, RMB7.1 million and RMB5.4 million, respectively as income. However, we cannot predict or guarantee the amount of subsidies to be granted for any specific project. If the relevant governments reduce or even cancel the current subsidies or refuse to grant any subsidies for any future projects, our income generated from government subsidies could be adversely affected.

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

Our results of operations and profitability are affected by changes in tax rates and the relevant preferential tax treatment in the PRC. During the Track Record Period, we and eight of our subsidiaries were entitled to a preferential EIT rate of 15%. In addition, no VAT was charged on our wastewater treatment tariff prior to 1 July 2015 and we have been charged VAT with an applicable tax rate of 17% on the wastewater treatment tariff beginning from 1 July 2015 but with a 70% refund of our VAT paid. Please refer to the section "Regulatory Environment — Taxation" for details.

We cannot assure you that the PRC policies with respect to the preferential tax treatment we enjoy will not be unfavourably changed or discontinued, or that the approval for such preferential tax treatments will be granted to us in a timely manner, or at all. The termination or expiration of our preferential tax treatment such as the 70% refund of our VAT paid 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.

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

We maintain certain property insurance to cover our tap water supply and wastewater treatment equipment. Our Directors believe that the type and amount of insurance is in line with the industry norm. 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. However, 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 the experience and efforts of our key management team and qualified personnel.**

The extensive industry 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.

**During the Track Record Period, we consolidated the financial results of two subsidiaries in which we held less than 50% equity interest. We cannot assure you that we will be able to continue to consolidate their financial results into our Group's consolidated financial statements in the future, and such a change could materially and adversely affect our financial condition, results of operations and prospects in the future.**

The financial statements of Jiangnan Water and Nanjiao Water have been consolidated into our Group's consolidated financial statements during the Track Record Period although our Company only has less than 50% of equity interest in each of the two subsidiaries. During the Track Record Period, we considered Jiangnan Water and Nanjiao Water as being controlled by our Company and, accordingly, each of the two companies was accounted for as a subsidiary of our Company. We are of the view that our Company holds majority voting rights in the shareholders' meeting of the two subsidiaries because our Company signed acting in concert agreements with the relevant shareholders of such subsidiaries. For details, please refer to the sections "History and Corporate Structure — Corporate Structure", "Statutory and General Information — 2. Further Information About Our Business — A. Summary of our material contracts" and the Accountants' Report set out in Appendix I to this prospectus.

We established and maintained our control of Jiangnan Water and Nanjiao Water through the acting in concert agreements with the relevant shareholders. Going forward, Luzhou Zhongxu may not abide by its agreements, for which our Company may have limited or no recourse. We may not be able to continue to consolidate the financial results of these subsidiaries if Luzhou Zhongxu ceases to align its votes with ours at shareholders' meetings, or if the acting in concert agreements are terminated. Furthermore, these subsidiaries may make business decisions, take risks or otherwise act in a manner that does not completely align with our Company's interests or the direction of our Company's business development, which could materially and adversely affect our results of operations and damage our reputation.

## RISKS RELATING TO CONDUCTING BUSINESS IN THE PRC

**The political, economic and social conditions in the PRC are experiencing changes and reforms, which may adversely affect our business, growth strategies, operating results and financial condition.**

For the past three decades, the PRC Government has implemented economic reform and measures emphasising the utilisation of market forces in the development of the PRC economy. Although we believe these economic reforms and measures will have a positive effect on the PRC's overall and long-term development, the resulting changes may lead to periods of relatively slow economic growth in markets which we operate and cause a decrease in the demand for our services, which in turn adversely affects our business, financial condition, results of operations and prospects. Despite these economic reforms and measures, the PRC Government continues to play a significant role in regulating industrial development, the allocation of natural resources, production, pricing and management of currency, and there can be no assurance that the PRC Government will continue to pursue a policy of economic reform or that the current direction of reform will continue.

Demand for our services and our business, financial condition, results of operations and prospects may be adversely affected by the following factors:

- political instability or changes in social conditions in the PRC;
- changes in laws, regulations and administrative directives;
- measures which may be introduced to control inflation or deflation;
- changes in the rate or method of taxation;
- change in monetary policies and availability of credit in the PRC; and
- restrictions on foreign investment in certain industries, particularly the wastewater treatment industry.

These factors are affected by a number of variables which are beyond our control.

**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 organisation 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.

**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, 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.

Moreover, because the calculation of distributable profits under the relevant PRC accounting principles is different from the calculation under IFRSs in certain respects, our operating subsidiaries may not have distributable profits as determined under the relevant PRC accounting principles, even if they have profits for that year as determined under IFRSs, 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 the MoF 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 EIT Law and its implementation regulations, a non-PRC resident enterprise is generally subject to EIT 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 payable of such refund will be subject to the PRC tax authorities' approval. As the EIT 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 EIT 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 US 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 US 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 US 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 US 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 US dollar and other relevant foreign currencies could result in a foreign exchange loss for assets denominated in US dollars and other foreign currencies, and a foreign exchange gain for liabilities denominated in US dollars and other foreign currencies. Conversely, a devaluation of Renminbi against the US dollar and other relevant foreign currencies could result in a foreign exchange gain for assets denominated in US dollars and other foreign currencies and a foreign exchange loss for liabilities denominated in US 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 US 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 US dollars or Hong Kong dollars, of our net assets, earnings and any declared dividends.

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 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 7.0 earthquake occurred in Ya'an, Sichuan in April 2013, 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.

## 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 (for ourselves and on behalf of the Selling Shareholders) and the Sole Global Coordinator (for itself and on behalf of the Underwriters), 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, 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. 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.

**Control by our Controlling Shareholder 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, our Controlling Shareholder will hold directly and indirectly through Luzhou Infrastructure approximately 66.81% of our issued Shares. The interests of our Controlling Shareholder may conflict with the interests of our other Shareholders. Following the completion of the Global Offering, our Controlling Shareholder 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 Shareholder's 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 Shareholder, see "Relationship with our Controlling Shareholder".

**Since there will be a gap of several days between pricing and trading of our H Shares, holders of our H Shares are subject to the risk that the price of our H Shares could fall during the period before trading of our H Shares begins.**

The Offer Price of our H Shares is expected to be determined on the Price Determination Date. However, our H Shares will not commence trading on the Stock Exchange until they are delivered, which is expected to be several days after the pricing date. As a result, investors may not be able to sell or deal in our H Shares during that period. Accordingly, holders of our H Shares are subject to risk that the price of our H Shares could fall before trading begins as a result of adverse market conditions or other adverse developments, that could occur between the time of sale and the time trading begins.

**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 registered 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 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.

**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 Joint Bookrunners, the Joint Lead Managers, 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 "Our 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.

In preparation for the Listing, we have sought the following waivers and exemptions from strict compliance with the relevant provisions of the Listing Rules and the relevant sections of the Companies (Winding Up and Miscellaneous Provisions) Ordinance:

**MANAGEMENT PRESENCE**

Rule 8.12 and 19A.15 of the Listing Rules requires that a new 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 our principal business operations are primarily located in the PRC and will continue to be based in the PRC, our executive Directors and senior management members are and will continue to be based in the PRC. At present, none of our executive Directors is ordinarily resident in Hong Kong. We have applied to the Stock Exchange for, and obtained, a waiver from strict compliance with the requirements set out in Rule 8.12 and 19A.15 of the Listing Rules subject to the following conditions:

(i) we have appointed two authorised representatives pursuant to Rule 3.05 of the Listing Rules who will act as our principal channel of communication with the Stock Exchange. The two authorised representatives are Mr. Zhang Qi, our Chairman and an executive Director, and Mr. Chen Yongzhong ("**Mr. Chen**"), our chief financial officer, the secretary to the Board and one of our joint company secretaries. Each of the authorised representatives will be available to meet with the Stock Exchange in Hong Kong within a reasonable period of time upon request and will be readily contactable by home, office, mobile and other telephone numbers, email address and correspondence address (if the authorised representative is not based at the registered office), facsimile numbers if available, and any other contact details prescribed by the Stock Exchange from time to time. Each of the authorised representatives has been duly authorised to communicate on our behalf with the Stock Exchange. All of them have confirmed that they possess valid travel documents to Hong Kong and will be able to meet with the Stock Exchange within a reasonable period of time, when required;

(ii) our authorised representatives have means to contact all Directors promptly at all times as and when the Stock Exchange wishes to contact our Directors on any matters;

(iii) each Director who is not ordinarily resident in Hong Kong has confirmed that he either possesses or can apply for valid travel documents to visit Hong Kong and can meet with the Stock Exchange within a reasonable period of time;

(iv) our Company has, in accordance with Rule 3A.19 of the Listing Rules, also appointed BOCOM International (Asia) Limited as its compliance adviser, who will act as an additional channel of communication with the Stock Exchange. The compliance adviser will advise on on-going compliance requirements and other issues arising under the Listing Rules and other applicable laws and regulations in Hong Kong for a period commencing on the Listing Date at least until the date on which our Company complies with Rule 13.46 of the Listing Rules in respect of our Company's financial results for the first full financial year after the Listing Date. The compliance adviser will have access at all times to our authorised representatives, Directors and the other senior management of the Company to ensure that it is in a position to provide prompt response to the enquiries or requirements raised by the Stock Exchange in respect of our Company; and

(v) each Director will provide his/her mobile phone number, office phone number, email address and fax number to the Stock Exchange.

## APPOINTMENT OF JOINT COMPANY SECRETARIES

Pursuant to Rule 8.17 of the Listing Rules, we must appoint a company secretary who satisfies Rule 3.28 of the Listing Rules. According to Rule 3.28 of the Listing Rules, we must appoint as our company secretary an individual who, by virtue of his academic or professional qualifications or relevant experience, is, in the opinion of the Stock Exchange, capable of discharging the functions of company secretary.

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

a) a member of The Hong Kong Institute of Chartered Secretaries;

b) a solicitor or barrister (as defined in the Legal Practitioners Ordinance); and

c) a certified public accountant (as defined in the Professional Accountants Ordinance).

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

a) length of employment with the issuer and other issuers and the roles he played;

b) familiarity with the Listing Rules and other relevant laws and regulations including the Securities and Futures Ordinance, Companies Ordinance, and the Takeovers Code;

c) relevant training taken and/or to be taken in addition to the minimum requirement under Rule 3.29 of the Listing Rules; and

d) professional qualifications in other jurisdictions.

We have appointed Mr. Chen Yongzhong and Ms. Ng Wing Shan ("**Ms. Ng**") as our joint company secretaries. Ms. Ng is a fellow member of the Hong Kong Institute of Chartered Secretaries and The Institute of Chartered Secretaries and Administrators in the United Kingdom, and therefore satisfies the requirements under Rules 3.28 and 8.17 of the Listing Rules pursuant to Note 1 of Rule 3.28 of the Listing Rules. However, Mr. Chen does not possess the specified qualifications required by Rule 3.28 of the Listing Rules. Mr. Chen joined our Company in December 2012 and acts as the chief financial officer and secretary to the Board. Please see the section headed "Directors, Supervisors and Senior Management " for further information about Mr. Chen.

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

- Mr. Chen will endeavor to attend relevant training courses, including briefing on the latest changes to the applicable Hong Kong laws and regulations as well as the Listing Rules organised by our Company's Hong Kong legal advisers on an invitation basis and seminars organised by the Stock Exchange for PRC issuers from time to time, in addition to the minimum requirement under Rule 3.29 of the Listing Rules;

- we have appointed Ms. Ng, who meets the requirements under Note 1 to Rule 3.28 of the Listing Rules, as a joint company secretary to work closely with and to provide assistance to Mr. Chen in the discharge of his duties as a company secretary for an initial period of three years commencing from the Listing Date so as to enable Mr. Chen to acquire the relevant experience (as required under Note 2 to Rule 3.28 of the Listing Rules) to discharge the duties and responsibilities as company secretary; and

- upon expiry of Ms. Ng's three-year term of appointment, the qualifications and experience of Mr. Chen will be re-evaluated. Mr. Chen is expected to demonstrate to the Stock Exchange's satisfaction that he, having had the benefit of Ms. Ng's assistance for three years, would then have acquired the "relevant experience" within the meaning of Note 2 to Rule 3.28 of the Listing Rules.

We have applied to the Stock Exchange for, and the Stock Exchange has granted us, a waiver from strict compliance with the requirements of Rule 3.28 and Rule 8.17 of the Listing Rules, with respect of the appointment of Mr. Chen as one of our joint company secretaries, for a period of three years from the Listing Date, subject to the condition that our Company engages Ms. Ng, who meets the requirements under Rules 3.28 and 8.17, as a joint company secretary to assist Mr. Chen in discharging his functions as a joint company secretary and in gaining the relevant experience as required under Rule 3.28. This waiver will be revoked immediately when Ms. Ng, during the three-year period, ceases to provide assistance to Mr. Chen. At the end of the three-year period, our Company shall liaise with the Stock Exchange and the Stock Exchange will re-visit the situation in the expectation that our Company then be able to demonstrate to the Stock Exchange's satisfaction that Mr. Chen, having had the benefit of Ms. Ng's assistance for three years, would then have acquired the relevant experience within the meaning of Rule 3.28 so that a further waiver would not be necessary.

## WAIVER FROM STRICT COMPLIANCE WITH RULES 4.04(1) AND 13.49(1) OF THE LISTING RULES AND EXEMPTION FROM STRICT COMPLIANCE WITH SECTION 342(1) OF THE COMPANIES (WINDING UP AND MISCELLANEOUS PROVISIONS) ORDINANCE IN RELATION TO PARAGRAPHS 27 AND 31 OF THE THIRD SCHEDULE THEREIN

According to Rule 4.04(1) of the Listing Rules, we are required to include in this prospectus an accountants' report covering the consolidated results of our Group in respect of each of the three financial years immediately preceding the issue of this prospectus (the "**Rule 4.04(1) Requirement**").

Guidance Letter HKEX-GL25-11 issued by the Stock Exchange has provided the conditions for granting a waiver from strict compliance with Rule 4.04(1) of the Listing Rules as follows:

"where an applicant issues its listing document in the third month after the latest year end, a Rule 4.04(1) waiver would be subject to the following conditions:

(1) the listing document must include the financial information for the latest financial year and a commentary on the results for the year. The financial information to be included in the listing document must (a) follow the same content requirements as for a preliminary results announcements under Main Board Rule 13.49; and (b) be agreed with the reporting accountants following their review under Practice Note 730 "Guidance for Auditors Regarding Preliminary Announcements of Annual Results" issued by the Hong Kong Institute of Certified Public Accountants;

(2) the applicant must list on the Stock Exchange within three months after the latest year end; and

(3) the applicant must obtain a certificate of exemption from the SFC on compliance with the Companies Ordinance Requirements."

Rule 13.49(1) of the Listing Rules requires issuers to publish preliminary financial results not later than three months after the end of each financial year (the "**Rule 13.49(1) Requirement**"). In this regard, the Guidance Letters HKEX-GL25-11 and HKEX-GL10-09 have further provided that:

"An applicant with a Rule 4.04(1) waiver under paragraph 4.2 or a GEM Rules 7.03(1) and 11.10 waiver under paragraph 4.3 above is still required to publish a preliminary results announcement and an annual report for the last financial year according to Main Board Rules 13.49 and 13.46 or GEM Rules 18.49 and 18.03 respectively. However, if a Main Board applicant has included the preliminary results information in its listing document under paragraph 4.2(ii)(a), the Stock Exchange will consider granting a waiver of the preliminary results announcement requirement under Main Board Rule 13.49 on a case-by-case basis having regard to all relevant facts and circumstances." and

"For waiver application from Rule 13.49(1), the applicant should:

(1) include in its listing document the financial information in respect of the reporting period to which its first annual result and first annual report relate; and

(2) not be in breach of its constitutional documents or laws and regulations of its place of incorporation or other regulatory requirements regarding its obligation to publish annual results announcements and distribute annual reports and accounts."

Further, Section 342(1)(b) of the Companies (Winding Up Miscellaneous Provisions) Ordinance requires all prospectuses to include the matters specified in Part I of the Third Schedule and set out the reports specified in Part II of the Third Schedule therein. Pursuant to Paragraph 27 of Part I of the Third Schedule to the Companies (Winding Up and Miscellaneous Provisions) Ordinance, our Company is required to include in this prospectus a statement as to the gross trading income or sales turnover during each of the three financial years immediately preceding the issue of this prospectus including an explanation of the method used for the computation of such income or turnover and reasonable breakdown between the more important trading activities, and pursuant to Paragraph 31 of Part II of the same schedule, our Company is required to include in this prospectus a report by its auditors with respect to the profits and losses of our Group in respect of each of the three financial years immediately preceding the issue of this prospectus and assets and liabilities of our Group at the last date to which the financial statements were prepared (the "**3rd Schedule Requirements"**).

Pursuant to section 342A of the Companies (Winding Up and Miscellaneous Provisions) Ordinance, the SFC may issue, subject to such conditions (if any) as the SFC thinks fit, a certificate of exemption from compliance with the relevant requirements under the Companies (Winding Up and Miscellaneous Provisions) Ordinance if, having regard to the circumstances, the SFC considers that the exemption will not prejudice the interest of the investing public and compliance with any or all of such requirements would be irrelevant or unduly burdensome, or is otherwise unnecessary or inappropriate.

Our Company has applied to the Stock Exchange for the waiver from strict compliance with Rules 4.04(1) and 13.49(1) of the Listing Rules and has applied to the SFC for a certificate of exemption from strict compliance with Section 342(1) of the Companies (Winding Up and Miscellaneous Provisions) Ordinance in relation to the 3rd Schedule Requirements on the following grounds:

(a) the Guidance Letter HKEX-GL25-11 is applicable to our Company because the financial year end of our Company is 31 December and based on the current proposed timetable, this prospectus is expected to be issued on or before 21 March

2017, which is within three months after 31 December 2016, and the date of listing is expected to be on or before 31 March 2017, which is within three months after 31 December 2016;

(b) the Reporting Accountants has prepared the accountants' report of our Group for the three financial years ended 31 December 2015 and the ten months ended 31 October 2016 (the "**Accountants' Report**"), which has been included in this prospectus;

(c) strict compliance with Rule 4.04(1) Requirement and Section 342(1) of the Companies (Winding Up and Miscellaneous Provisions) Ordinance in relation to the 3rd Schedule Requirements would be unduly burdensome as there would not have been sufficient time for the Reporting Accountants to update and finalise the accountants' report to cover such additional period for inclusion in this prospectus within a short period of time. Our Directors consider that the benefits of such work to the investing public may not justify the additional work and expenses involved and the delay in the listing timetable, given that it is expected that there would be no significant change in the financial position of our Group since 31 October 2016;

(d) our Company has included its financial information for the financial year ended 31 December 2016 and a commentary on the results for the year in this prospectus (the "**Preliminary Financials**"). Such financial information (a) are prepared in compliance with the content requirements as for a preliminary results announcements under Rule 13.49 of the Listing Rules; and (b) have been agreed with the Reporting Accountants following their review under Practice Note 730 "Guidance for Auditors Regarding Preliminary Announcements of Annual Results" issued by the Hong Kong Institute of Certified Public Accountants;

(e) our Directors confirmed that all information necessary for potential investors to make an informed assessment of our activities, assets and liabilities, financial position, management and prospects have been included in this prospectus and that, as such, any waiver or exemption with respect to Rule 4.04(1) Requirement and Section 342(1) of the Companies (Winding Up and Miscellaneous Provisions) Ordinance in relation to the 3rd Schedule Requirements will not prejudice the interest of the investing public; and

(f) strict compliance with the Rule 13.49(1) Requirement would be unduly burdensome and not particularly meaningful given that our Company will include in this prospectus the Preliminary Financials prepared in compliance with the content requirements as for a preliminary results announcements under Rule 13.49 of the Listing Rules, and given the short timeframe between the proposed date of publication of this prospectus and the required date of publication of the preliminary financial results, this prospectus shall contain such other information sufficiently updated for the benefits of our Company's shareholders and the investing public. In addition, our Company will issue its annual report for the year ended 31 December 2016 by the end of April 2017 in accordance with Rule 13.46 of the Listing Rules, which will include the audited financial information of the Group for the year ended 31 December 2016.

On 17 March 2017, the SFC has granted us a certificate of exemption from strict compliance with Section 342(1) of the Companies (Winding Up and Miscellaneous Provisions) Ordinance in relation to Paragraphs 27 and 21 of the Third Schedule therein on the following conditions:

(i) the particulars of the exemption be set out in this prospectus; and

(ii) this prospectus will be issued on or before 21 March 2017; and our Company's Shares will be listed on or before 31 March 2017, i.e. three months after the latest financial year-end.

On 17 March 2017, the Stock Exchange has granted us a waiver from strict compliance with Rules 4.04(1) and 13.49(1) of the Listing Rules on the following conditions:

(i) we list on the Stock Exchange by 31 March 2017;

(ii) we obtain a certificate of exemption from the SFC from similar requirements under paragraphs 27 and 31 of the Third Schedule to the Companies (Winding Up and Miscellaneous Provisions) Ordinance;

(iii) the unaudited financial information for the year ended 31 December 2016 and a commentary on the results for the year will be included in this prospectus. The financial information to be included in this prospectus must (a) follow the same content requirements as for a preliminary results announcements under Rule 13.49; and (b) be agreed with the Reporting Accountants following their review under Practice Note 730 "Guidance for Auditors Regarding Preliminary Announcements of Annual Results" issued by the Hong Kong Institute of Certified Public Accountants; and

(iv) our Company is not in breach of its constitutional documents or laws and regulations of the PRC or other regulatory requirements regarding its obligation to publish preliminary results announcements.

Our Directors and the Sole Sponsor confirmed that after performing all due diligence work, up to the Latest Practicable Date, there has been no material adverse change in our financial position or prospects since 31 October 2016 and there has been no event since 31 October 2016 that would materially affect the information shown in the Accountants' Report out in Appendix I to this prospectus.

## NON-EXEMPT CONTINUING CONNECTED TRANSACTION

Our Group has entered into, and expects to continue after the Listing, certain transaction which will constitute non-exempt continuing connected transaction under Chapter 14A of the Listing Rules. We have applied to the Stock Exchange for, and the Stock Exchange has granted to us, a waiver from strict compliance with the announcement requirement as set out in Chapter 14A of the Listing Rules in respect of such non-exempt continuing connected transaction.

Please refer to the section headed "Connected Transactions" in this prospectus for further information of such non-exempt continuing connected transaction and corresponding waiver.

## DIRECTORS' RESPONSIBILITY FOR THE CONTENTS OF THIS PROSPECTUS

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

## CSRC APPROVAL

The CSRC issued an approval letter on 3 November 2016 for the Global Offering and the making of the application to list our H Shares on the Stock Exchange. In granting such approval, 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.

## UNDERWRITING

This prospectus is published solely in connection with the Hong Kong Public Offering. For applicants under the Hong Kong Public Offering, this prospectus and the Application Forms set out the terms and conditions of the Hong Kong Public Offering.

The Listing of our H Shares on the Stock Exchange is sponsored by the Sole Sponsor. The Hong Kong Public Offering is fully underwritten by the Hong Kong Underwriters under the terms of the Hong Kong Underwriting Agreement, subject to the agreement on the Offer Price between the Sole Global Coordinator (for itself and on behalf of the Underwriters) and our Company (for ourselves and on behalf of the Selling Shareholders) on or before the Price Determination Date. The Global Offering is managed by the Sole Global Coordinator. Further details of the Underwriters and the underwriting arrangements are set out in the section headed "Underwriting" in this prospectus.

## SELLING RESTRICTIONS

Each person acquiring Offer Shares will be required to confirm, or by his/her acquisition of Offer Shares be deemed to confirm, that he/she is aware of the restrictions on offers and sales of the Offer Shares described in this prospectus.

No action has been taken to permit a public offering of the Offer Shares in any jurisdiction other than Hong Kong or the distribution of this prospectus in any jurisdiction other than Hong Kong. Accordingly, this prospectus and/or the 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 Application Forms and the offering and sales of the Offer Shares in other jurisdictions are subject to restrictions and may not be made except as permitted under the applicable securities laws of such jurisdictions pursuant to registration with or authorisation by the relevant securities regulatory authorities or an exemption therefrom. In particular, the Offer Shares have not been publicly offered or sold, directly or indirectly, in the PRC or the U.S.

## INFORMATION ON THE GLOBAL OFFERING

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

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

## APPLICATION FOR LISTING ON THE STOCK EXCHANGE

Application has been made to the Listing Committee for the listing of, and permission to deal in, our H Shares which may be issued by us pursuant to the Global Offering and upon the exercise of the Over-allotment Option.

Save as disclosed herein, no part of the equity or debt securities of our Company is listed on 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.

Under section 44B(1) of the Companies (Winding Up and Miscellaneous Provisions) Ordinance, any allotment made in respect of any application will be void if the listing of, and permission to deal in, our H Shares on the Stock Exchange is refused before the expiration of three weeks from the date of the closing of the application lists, or such longer period (not exceeding six weeks) as may, within the said three weeks, be notified to our Company by or on behalf of the Stock Exchange.

## H SHARES WILL BE ELIGIBLE FOR ADMISSION INTO CCASS

Subject to the granting of listing of, and permission to deal in, our H Shares on the Stock Exchange and our Company's compliance with the stock admission requirements of HKSCC, our 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 our 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. All necessary arrangements have been made for our H Shares to be admitted into CCASS. Investors should seek the advice of their stockbrokers or other professional advisers for details of the settlement arrangement that may affect their rights and interests.

## PROFESSIONAL TAX ADVICE RECOMMENDED

Applicants should consult their professional advisers if they are in any doubt as to the tax implications of subscription for, purchasing, holding, disposing of and dealing in our H Shares. It is emphasised that none of our Group, the Selling Shareholders, the Sole Global Coordinator, the Sole Sponsor, the Joint Bookrunners, the Joint Lead Managers, the Underwriters, any of their respective directors, agents or advisers or any other person involved in the Global Offering accepts responsibility for the tax effects or liabilities resulting from your subscription for, purchase, holding, disposal of or dealing in our H Shares.

## H SHARE REGISTER AND STAMP DUTY

All of the H Shares issued pursuant to applications made in the Global Offering will be registered on the H Share register to be maintained in Hong Kong by our H Share Registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong. Our principal register of members will be maintained by us at our head office in the PRC.

Dealings in our H Shares registered on the H Share register will be subject to Hong Kong stamp duty. Unless determined otherwise by our Company, dividends payable in Hong Kong dollars in respect of H Shares will be paid to the shareholders listed on the H Share register of our Company, by ordinary post, at the shareholders' risk, to the registered address of each shareholder.

## STABILISATION AND OVER-ALLOTMENT

In connection with the Global Offering, BOCOM International Securities Limited, as Stabilising Manager, or any person acting for it may over-allot H Shares or effect any other transactions with a view to stabilising and maintaining the market price of the Offer Shares at a level higher than that which might otherwise prevail for a limited period after the Listing Date. However, there is no obligation on the Stabilising Manager or any person acting for it to conduct any such stabilising action.

In connection with the Global Offering, our Company and the Selling Shareholders are expected to grant to the International Underwriter the Over-allotment Option, which is exercisable in full or in part by the Sole Global Coordinator (on behalf of the International Underwriters) no later than 30 days after the last day for lodging applications under the Hong Kong Public Offering. Pursuant to the Over-allotment Option, our Company and the Selling Shareholders may be required to issue at the Offer Price up to an aggregate of 32,241,000 H Shares, representing 15% of the total number of H Shares initially available under the Global Offering, to cover over-allotment in the Global Offering, if any.

Further details with respect to stabilisation and the Over-allotment Option are set out in the section headed "Structure of the Global Offering — Stabilisation and Over-allotment" in this prospectus.

## PROCEDURES FOR APPLICATION FOR HONG KONG PUBLIC OFFER SHARES

The application procedures for the Hong Kong Public Offer Shares are set out in the section headed "How to Apply for Hong Kong Public Offer Shares" in this prospectus and on the relevant Application Forms.

## REGISTRATION OF SUBSCRIPTION, PURCHASE AND TRANSFER OF H SHARES

We have instructed Computershare Hong Kong 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:

- agrees with us and each of our Shareholders, and we agree with each Shareholder, to observe and comply with the PRC Company Law, the Special Regulations and our Articles of Association;

- 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 Shareholder, to refer all differences and claims arising from our Articles of Association or any rights or obligations conferred or imposed by the PRC 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, which shall be final and conclusive;

- agrees with us and each of our Shareholders that the H Shares are freely transferable by the holders thereof; and

- authorises us to enter into a contract on his or her behalf with each of our Directors, managers and officers whereby such Directors, managers and officers undertake to observe and comply with their obligations to our Shareholders as stipulated in our Articles of Association.

## THE SELLING SHAREHOLDERS

| No. | Name | Number of Sale Shares (assuming no exercise of the Over-allotment Option) | Number of Sale Shares (assuming full exercise of the Over-allotment Option) |
|---|---|---|---|
| 1. | Xinglu Investment | 15,505,873 | 17,831,754 |
| 2. | Luzhou Laojiao | 2,133,690 | 2,453,743 |
| 3. | Luzhou Infrastructure | 1,900,437 | 2,185,503 |

## STRUCTURE OF THE GLOBAL OFFERING

Details of the structure of the Global Offering, including its conditions, are set out in the section headed "Structure of the Global Offering" in this prospectus.

## ROUNDING

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

## EXCHANGE RATE CONVERSION

Unless otherwise specified, amounts denominated in Hong Kong dollars have been translated, for the purpose of illustration only, into Renminbi and US dollars, and vice versa, in this prospectus at the following rate:

HK$1.00: RMB0.88852 (set by the SAFE for foreign exchange transaction prevailing on the Latest Practicable Date)

No representation is made that any amounts in Renminbi, Hong Kong dollars or US dollars can be or could have been at the relevant dates converted at the above rates or any other rates or at all.

## LANGUAGE

If there is any inconsistency between this prospectus and the Chinese translation of this prospectus, this prospectus shall prevail. Translated English names of Chinese laws and regulations, governmental authorities, institutions, natural persons or other entities included in this prospectus for which no official English translation exists are unofficial translation and for reference only.

## DIRECTORS

| Name | Address | Nationality |
|---|---|---|
| **Executive Directors** | | |
| Mr. Zhang Qi | Flat 9, 5/F, Block 11, 1 Zai Niu Xiang, Jiangyang District, Luzhou City, Sichuan Province | Chinese |
| Mr. Wang Junhua | Flat 1801, 18/F, Unit 2, Zi Jing West Court Community, No. 5 Diao Yu Tai Road, Jiangyang District, Luzhou City, Sichuan Province | Chinese |
| Mr. Liao Xingyue | Flat 1, Unit 1, Block 8, "Tianli" Community, Fenglin Lijing, Luzhou City, Sichuan Province | Chinese |
| **Non-executive Directors** | | |
| Mr. Chen Bing | Flat 2501, 9/F, Huachen Qi Long Sheng Jing, Jiu Cheng Avenue Second Section, Chengxi, Jiangyang District, Luzhou City, Sichuan Province | Chinese |
| Ms. Xu Yan | No. 17–66, Unit 2/3, Block 2 Jinyuan Community, Luzhou City, Sichuan Province | Chinese |
| Mr. Yang Ronggui | Flat 7-1-401, Xiangsong Peninsula, Longmatan District, Luzhou City, Sichuan Province | Chinese |
| **Independent Non-executive Directors** | | |
| Mr. Gu Ming'an | Flat 09, Unit 4, Block 22, Southwestern University of Finance and Economics, No. 55 Guanghuacun Street, Chengdu, Sichuan Province | Chinese |
| Mr. Lin Bing | No. 7, Unit 1, Block 8 Lanying Garden, Huidong, Zigong City, Sichuan Province | Chinese |
| Mr. Cheng Hok Kai, Frederick | 10C, 12/F, Mei Foo Sun Chuen, Lai Wan Road, Kowloon, Hong Kong | British |

## SUPERVISORS

| Name | Address | Nationality |
|---|---|---|
| Ms. Qu Mei | Flat 11, Unit 2, Block 2, No. 44 Jiangyang West Road, Jiangyang District, Luzhou City, Sichuan Province | Chinese |
| Mr. Xu Ke | Room 29, Unit 7, 23 Taiping Street, Jiangyang District, Luzhou City, Sichuan Province | Chinese |
| Ms. Huang Mei | Flat 14-2-302, Xiangsong Peninsula Phase II, Xiang Lin Road Third Section, Longmatan District, Luzhou City, Sichuan Province | Chinese |
| Ms. Xiang Min | Flat 3-1-10, No. 3 Wanshun Road, Luzhou City, Sichuan Province | Chinese |
| Mr. Zhu Yuchuan | Flat 3, 2/F, Block 11, 1 Zai Niu Xiang, Luzhou City, Sichuan Province | Chinese |
| Mr. Xuan Ming | Flat 14-1, Yintian Court, Xianglin Road Second Section, Longmatan District, Luzhou City, Sichuan Province | Chinese |
| Mr. Xiong Hua | Flat 604, Block 7, No. 78 Wufu Street, Luzhou City, Sichuan Province | Chinese |

For further information, please see the section headed “Directors, Supervisors and Senior Management” in this prospectus.

## PARTIES INVOLVED IN THE GLOBAL OFFERING

| | |
|---|---|
| **Sole Sponsor** | **BOCOM International (Asia) Limited**<br>9th Floor, Man Yee Building<br>68 Des Voeux Road Central<br>Hong Kong |
| **Sole Global Coordinator** | **BOCOM International Securities Limited**<br>9th Floor, Man Yee Building<br>68 Des Voeux Road Central<br>Hong Kong |

| | |
|---|---|
| **Joint Bookrunners** | **BOCOM International Securities Limited**<br>9th Floor, Man Yee Building<br>68 Des Voeux Road Central<br>Hong Kong |
| | **First Capital Securities Limited**<br>Unit 4512, 45/F., The Center<br>99 Queen's Road Central<br>Hong Kong |
| | **Haitong International Securities Company Limited**<br>22/F Li Po Chun Chambers<br>189 Des Voeux Road Central<br>Hong Kong |
| **Joint Lead Managers** | **BOCOM International Securities Limited**<br>9th Floor, Man Yee Building<br>68 Des Voeux Road Central<br>Hong Kong |
| | **First Capital Securities Limited**<br>Unit 4512, 45/F., The Center<br>99 Queen's Road Central<br>Hong Kong |
| | **Haitong International Securities Company Limited**<br>22/F Li Po Chun Chambers<br>189 Des Voeux Road Central<br>Hong Kong |
| **Reporting Accountants and International Auditors** | **Deloitte Touche Tohmatsu**<br>*Certified Public Accountants*<br>35th Floor, One Pacific Place<br>88 Queensway<br>Hong Kong |
| **Legal adviser to our Company** | *as to Hong Kong law*<br>**Luk & Partners**<br>Unit 2001, Level 20<br>One International Finance Centre<br>1 Harbour View Street<br>Central, Hong Kong |

| | |
|---|---|
| | *as to PRC law*<br>**Jia Yuan Law Offices**<br>F408, Ocean Plaza<br>158 Fuxing Men Nei Avenue<br>Xicheng District<br>Beijing, PRC |
| **Legal adviser to the Underwriters** | *as to Hong Kong law*<br>**Morrison & Foerster**<br>33/F, Edinburgh Tower<br>The Landmark<br>15 Queen's Road Central<br>Hong Kong<br><br>*as to PRC law*<br>**Global Law Office**<br>15 & 20/F, Tower 1<br>China Central Place<br>No. 81 Jianguo Road<br>Chaoyang District<br>Beijing, PRC |
| **Industry consultant** | **Frost & Sullivan (Beijing) Inc.**<br>Room 1014–1018, Tower B<br>No. 500 Yunjin Road<br>Xuhui District Shanghai, PRC |
| **Compliance adviser** | **BOCOM International (Asia) Limited**<br>9th Floor, Man Yee Building<br>68 Des Voeux Road Central<br>Hong Kong |
| **Receiving bank** | **Bank of Communications Co., Ltd. Hong Kong Branch**<br>20 Pedder Street<br>Central<br>Hong Kong |

| | |
|---|---|
| **Registered address** | 16 Baizi Road<br>Jiangyang District, Luzhou<br>Sichuan Province<br>PRC |
| **Headquarters/Principal place of business in the PRC** | 16 Baizi Road<br>Jiangyang District, Luzhou<br>Sichuan Province<br>PRC |
| **Place of business in Hong Kong registered under Part 16 of the Companies Ordinance** | 18/F, Tesbury Centre<br>28 Queen's Road East<br>Wanchai, Hong Kong |
| **Company websites** | **www.lzss.com**<br>*(information contained in this website does not form part of this prospectus)* |
| **Joint company secretaries** | Mr. Chen Yongzhong<br>3-1-1403 Shang Jiang Nan<br>Luzhou City<br>Sichuan Province, the PRC<br><br>Ms. Ng Wing Shan *FCIS, FCS*<br>18/F, Tesbury Centre<br>28 Queen's Road East<br>Wanchai, Hong Kong |
| **Authorised representatives** | Mr. Zhang Qi<br>No. 9, 5/F, Block 11<br>Zainiu Lane 1<br>Jiangyang District, Luzhou City<br>Sichuan Province, the PRC<br><br>Mr. Chen Yongzhong<br>3-1-1403 Shang Jiang Nan<br>Luzhou City<br>Sichuan Province, the PRC |
| **Audit committee** | Mr. Cheng Hok Kai, Frederick *(Chairman)*<br>Mr. Gu Ming'an<br>Mr. Yang Ronggui |
| **Nomination and Remuneration committee** | Mr. Gu Ming'an *(Chairman)*<br>Mr. Cheng Hok Kai, Frederick<br>Mr. Zhang Qi |

| | |
|---|---|
| **Strategic committee** | Mr. Chen Bing *(Chairman)*<br>Mr. Zhang Qi<br>Mr. Lin Bing |
| **H Share Registrar** | **Computershare Hong Kong Investor Services Limited**<br>Shops 1712–1716, 17th Floor<br>Hopewell Centre<br>183 Queen's Road East<br>Wanchai<br>Hong Kong |
| **Principal bankers** | **Industrial and Commercial Bank of China**<br>Luzhou Jiangyang South Road Sub-branch<br>No. 29 Jiangyang South Road<br>Luzhou City<br>Sichuan Province<br>the PRC |
| | **Luzhou City Commercial Bank**<br>Tongda Sub-branch<br>No. 1 Jiangyang South Road<br>Luzhou City<br>Sichuan Province<br>the PRC |
| | **Bank of Communications Co., Ltd.**<br>Luzhou Branch<br>No. 16 Jiucheng Avenue I<br>Luzhou City<br>Sichuan Province<br>the PRC |

***The information presented in this section is derived from various official government publications and other publications and from the market research report prepared by Frost & Sullivan which was commissioned by us, unless otherwise indicated. We believe that the sources of such information are appropriate sources for such information and we have taken reasonable care in extracting and reproducing such information. We have no reason to believe that such information is false or misleading in any material respect or that any fact has been omitted that would render such information false or misleading in any material respect. Our Directors confirm that, after taking reasonable care, there is no adverse change in the market information that would qualify, contradict or have a material impact on such information since the date of the Frost & Sullivan Report. The information has not been independently verified by our Company, the Selling Shareholders, the Sole Sponsor, the Sole Global Coordinator, the Joint Bookrunners, the Joint Lead Managers, the Underwriters, any of our or their respective directors, officers or representatives or any other person involved in the Global Offering and no representation is given as to its accuracy. The information and statistics may not be consistent with other information and statistics compiled within or outside of China.***

## SOURCE OF INFORMATION

In connection with the Global Offering, we have engaged Frost & Sullivan, an independent third party, to conduct a study of the municipal water supply and municipal wastewater treatment markets in China. Frost & Sullivan is a global consulting company founded in 1961 in New York and has over 40 global offices with more than 2,000 industry consultants, market research analysts, technology analysts and economists. Frost & Sullivan's services include technology research, independent market research, economic research, corporate best practices advising, training, customer research, competitive intelligence and corporate strategy. Frost & Sullivan has been covering the Chinese market since the 1990's. Frost & Sullivan has four offices in China and direct access to the most knowledgeable experts and market participants in the municipal water supply and municipal wastewater treatment industries and its industry consultants, on average, have more than five years of experience.

We have included certain information from the Frost & Sullivan Report in this prospectus because we believe such information facilitates an understanding of the municipal water supply and municipal wastewater treatment market for prospective investors. The methodology used by Frost & Sullivan in gathering the relevant market data in compiling the Frost & Sullivan Report included desktop research and trade interviews. Desktop research involves information integration of data and publication from publicly available resources, including official data and announcements from Chinese government agencies, and market research on industry and enterprise player information issued by our chief competitors. Trade interviews were conducted with relevant institutions to obtain objective and factual data and prospective predictions. Frost & Sullivan considered the source of information as reliable because (i) it is general market practice to adopt official data and announcements from various Chinese government agencies; and (ii) the information obtained from interviews is for reference only and the findings in this report are not based on the results of these interviews. Frost & Sullivan has proven track records in providing market research studies to government and private clients in the regions where the Frost & Sullivan Report covers. In compiling and preparing the Frost & Sullivan Report, Frost & Sullivan has adopted the following assumptions: (i) China's economy is likely to maintain steady growth in the next decade; (ii) China's social, economic, and political environment is likely to remain stable in the forecast period; and (iii) market drivers like economic growth and increasing urbanisation rate of China, improved legislation of environmental protection and increasingly stringent law enforcement, strong and sustained government support, and increasingly high standard of water quality requirement are likely to drive the growth of China's municipal wastewater treatment and municipal water supply industries. We agreed to pay Frost & Sullivan a fee of RMB500,000 for the preparation of the Frost & Sullivan Report.

## MUNICIPAL WATER INDUSTRY

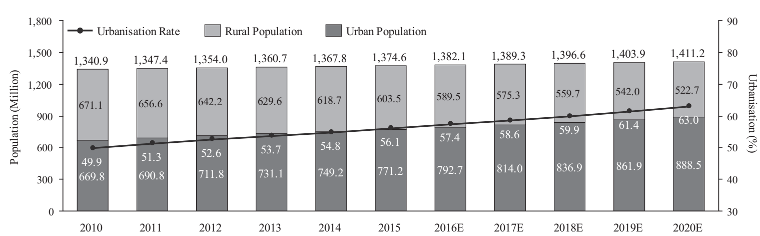
### Overview

According to the Frost & Sullivan Report, despite having massive volume of water resource at around 2,831 billion tons, China is one of the world's most water deficient countries. Its per capita freshwater resource of 2,059 tons is less than a third of global average. Exacerbating this water shortage is China's growing demand for water driven by China's rapid economic development, growing and increasingly urbanised population.

Between 2010 and 2015, China's population grew from 1,340.9 million to 1,374.6 million. Frost and Sullivan estimates that by 2020, China's population will grow to 1,411.2 million. Similarly, from 2010 to 2015 China's urban population increased from 669.8 million to 771.2 million. Frost & Sullivan estimates that China's urban population will increase to 888.5 million by 2020.

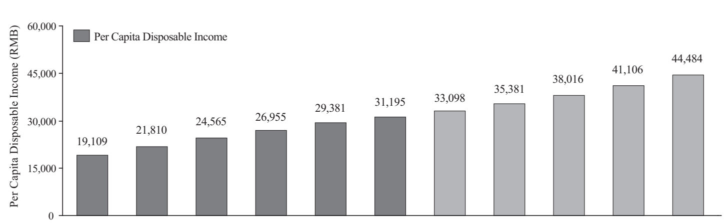
Due to economic growth and urbanisation, the average income level of Chinese households has also increased from RMB19,109 in 2010 to RMB31,195 in 2015. Frost & Sullivan estimates that by 2020, average income level of Chinese households will increase to RMB44,484.

The chart below sets forth China's population and urbanisation for the years indicated:




*Source: the Frost & Sullivan Report and National Bureau of Statistics*

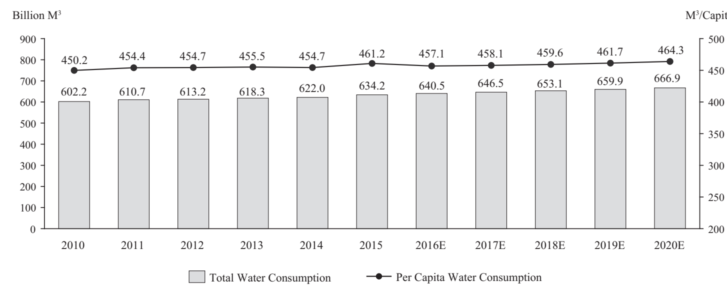
The chart below sets forth China's per capita disposable income of urban households for the years indicated:




*Source: the Frost & Sullivan Report and the National Bureau of Statistics*

Between 2010 and 2015, the water consumption volume in China increased from 602.2 billion ton to 634.2 billion ton. During the same period, per capita water consumption has also increased from 450.2 ton to 461.2 ton. Frost & Sullivan expects China's water demand will keep growing and has estimated that by 2020, total and per capita water consumption will increase to 666.9 billion ton and 464.3 ton respectively.

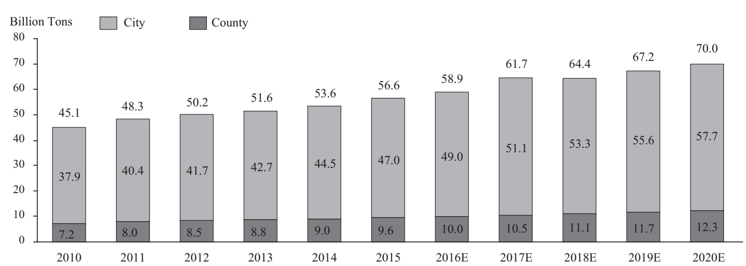
The chart below shows per capita water consumption in China for the indicated periods:




*Source: the Frost & Sullivan Report*

Widespread water pollution has also contributed to China's water shortage problem resulting in China's need to exploit more water resource and build more water supply plants to meet its water demand. This combined with the increase in wastewater discharge, has resulted in the growing demand for municipal wastewater treatment and water recycling in China.

The chart below sets for the discharge volume of municipal wastewater in China for the indicated period:




*Source: the Frost & Sullivan Report and Ministry of Housing and Urban-Rural Development*

To tackle the above issues, the PRC government has issued a number of policies and incentives to encourage the development of the municipal water industry, some of which include Action Plan for Water Pollution Prevention and Control (《水污染防治行動計劃》) ("**Action Plan**") which set the targets on water pollution control and water environment improvement by 2020 and 2030 respectively; and Instructions for the Promotion of Public-Private Partnership ("**PPP**") in Water Pollution Prevention (《關於推進水污染防治領域政府和社會資本合作的實施意見》) which is aimed at introducing more private investments in the water industry.

The main growth drivers of the municipal water industry in China include:

- *China's economic development, growing population and urbanisation, and rising disposable income*: China's water consumption is directly driven by its economic development, growing population and rising urbanisation. The recent introduction of the two-child policy is expected to drive further population growth. Further, China's economic development has led to unprecedented urbanisation of its population with Frost and Sullivan estimating that China's urbanisation rate will increase from 56.1% in 2015 to 63.0% by 2020. These will continue to drive demand for municipal water supply and wastewater treatment services;

- *Favourable legislative and regulatory environments and incentive policies*: Building on the various reforms and incentives in China's Twelfth Five-year Plan, the PRC government has, in recent years, further issued a series of legislations and policies to support the development of China's municipal water industry. In the Thirteenth Five-year Plan, water environment treatment was listed as one of the key environmental protection projects. It has indicated that wastewater treatment rate at the city and county levels should reach 95% and 85%, respectively. Besides setting the targets of reducing China's water pollution levels by 2020 and 2030, the Action Plan is also expected to bring about RMB2 trillion investment into the industry over the next five years which should help spur further growth in the China's water industry. In addition, the PRC government has also introduced a series of incentives such as tax concessions and fiscal subsidies to support the development of the China's municipal water and environmental protection industries;

- *Increasingly high requirement of water quality and rising awareness of environmental protection*: The PRC government is likely to continue imposing higher requirement on quality standards for water supply and wastewater discharge to better control water pollution. Rising public awareness of environmental protection in China has also been extended to water quality. As a result, the PRC government is likely to increase investment and effort to tackle the issues caused by water pollution;

- *Water Pricing Reform*: Based on the Notice on Promoting the Reform of Water Tariff, Water Conservation and Protection of Water Resource (關於推進水價改革促進節約用水保護水資源的通知) and Guidance on Accelerating the Establishment of the System of Tiered Water Tariff of Urban Residents (關於加快建設完善城鎮居民用水階梯價格制度的指導意見), the PRC government is encouraging the implementation of tiered water pricing system. This is expected to lead to increase in water prices and profitability of municipal water companies;

- *Growing investment and funding from private sector*: Since 2014, the PRC government has been promoting the use of PPP model in the water supply and wastewater treatment industries. One of the main objectives of promoting the PPP model is to attract more private investment and capital into the China's water industry and help drive its future growth and development;

- *Integration of urban and rural water supply*: Based on the New Urbanisation Plan (2014–2020) (國家新型城鎮化規劃(2014–2020年)) the integration of public service sectors for urban and rural areas is an integral part of the plan with the integration of urban and rural water supply being seen as crucial in the development of rural area and the lower-tier cities and counties. The promotion of an integrated urban and rural water supply is likely to boost further growth in the China's municipal water industry, especially those in the urban-rural fringe areas; and

- *Development of third party treatment model*: The PRC government has promulgated a series of policies to promote the use of third party treatment ("**TPT**") model, including the Opinions on Promoting the Third Party Treatment of Environmental Pollution (關於推行環境污染第三方治理的意見) issued by the General Office of the State Council in 2014 and the Administrative Measures on the Concession Operation of Infrastructure and Public Utilities (基礎設施和公用事業特許經營管理辦法) jointly issued by, among others, the NDRC, the Ministry of Water Resources and the PBOC in 2015. Under the TPT model, polluters are allowed to contract out their pollution to professional third party pollution control services providers. This should help increase the level of specialisation and the degree of marketisation in the municipal wastewater industry, which in turn will attract more private investment into the sector.

Major entry barriers to the municipal water industry in China include:

- *Government authorisation*: obtaining the relevant approvals and authorisations, including the concession rights, from the competent local government authorities is a prerequisite for entry into the operation of municipal water supply and wastewater treatment businesses. To ensure the safety of water supply and avoid unnecessary construction of excess capacity, authorisation for water supply operations is usually exclusive and long-term, preventing potential entry of other market participants.

- *Operation capacity and qualification*: the operation and management of municipal water supply and wastewater treatment plants is highly complicated. Requiring management and staff of experience, knowledge and expertise. In addition, operation of water treatment plant and waste distribution system have to meet strict quality requirements to ensure stable and safe water supply. As such, local government prefers companies with the necessary qualifications and proven operational track record, both of which need to be established over a long period.

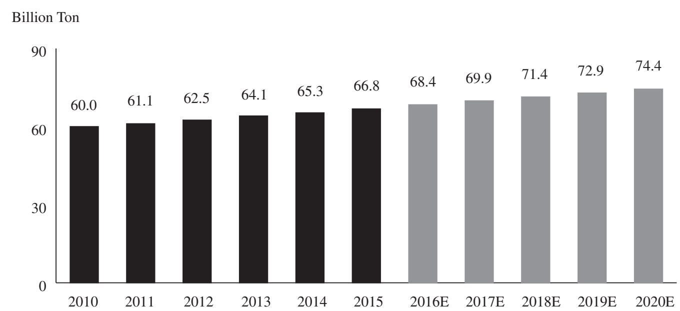
- *Capital requirement*: municipal water industry is a capital-intensive industry with the construction of water treatment plants, water distribution pipeline and wastewater treatment plants requiring substantial initial investment which poses significant challenge on a new entrant's funding capability.

- *Geographical barrier*: local government has strong influence on the development of the local municipal water industry. Once being awarded a water supply or wastewater treatment concession, the concession right holder has a strong advantage in the local market as these concessions are usually exclusive with the incumbent being in a more advantageous position to renew the concession upon expiration.

**Municipal Water Supply Industry in China**

Municipal water supply in China, driven by increase in demand, has been increasing steadily in recent years with the supply volume growing from 60.0 billion ton in 2010 to 66.8 billion ton in 2015, representing a CAGR of 2.2%. With rising municipal water demand and further development of lower-tier cities in China, the municipal water supply volume is estimated to retain its current growth trend and grow at a CAGR of 2.2% in the next five years, reaching approximately 74.4 billion ton in 2020.

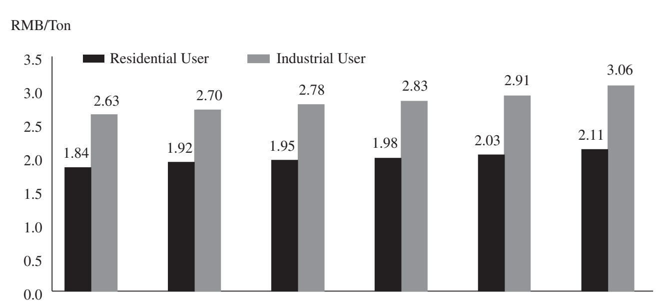
The chart below illustrates municipal water supply volume in China for the years indicated:




*Source: the Frost & Sullivan Report and Ministry of Housing and Urban-Rural Development*

Tap water tariff, which is regulated by the relevant government authority, has been increasing steadily in recent years. For residential users, the average tap water tariff has increased from RMB1.84 per metric ton in 2010 to RMB2.11 per metric ton in 2015. The average tap water tariff for industrial users has increased from RMB2.63 per metric ton in 2010 to RMB3.06 per metric ton in 2015. Tap water tariffs are expected to rise, which should increase the revenue of municipal water supply companies.

The chart below illustrated the average tap water tariff in China for the years indicated:



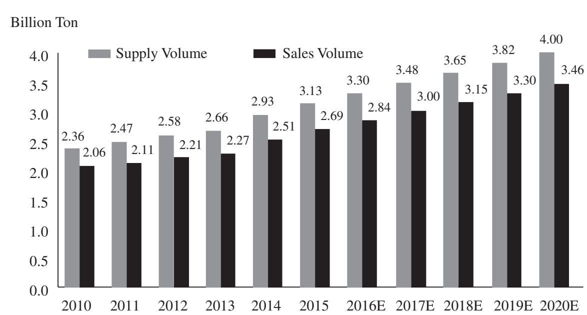

*Source: the Frost & Sullivan Report and Ministry of Housing and Urban-Rural Development*

**Municipal Water Supply Industry in Sichuan Province**

Sichuan Province is one of the most developed provinces in West China, with a well-established municipal wastewater supply industry. In 2015, the municipal water supply capacity for Sichuan Province was 13.3 million tons per day growing at a CAGR of around 3.9% over the past 5 years. The municipal water supply capacity in Sichuan Province is anticipated to reach 16.1 million ton in 2020, with a CAGR of 3.9%.

Supply volume of municipal water in Sichuan Province increased from 2.4 billion ton in 2010 to 3.1 billion ton in 2015. Sales volume of municipal water in Sichuan Province increased from 2.1 billion ton in 2010 to 2.7 billion ton in 2015. The on-going economic development of Sichuan and the shift of manufacturing industries to West China and Sichuan Province is expected to generate increase demand for municipal water supply. By 2020, the supply and sales volumes of municipal water supply in Sichuan Province is expected to increase to approximately 4.0 and 3.5 billion ton, respectively. The gap between municipal water supply volume and sales volume is anticipated to be slightly wider than before due to the on-going construction of some public and communal facilities as a result of continuing urbanisation in Sichuan Province.

The chart below illustrates municipal water supply and sales volumes in Sichuan Province for the years indicated:




*Source: the Frost & Sullivan Report and Ministry of Housing and Urban-Rural Development*

**Municipal Water Supply Industry in Luzhou Area**

According to the Frost & Sullivan Report, the GDP of Luzhou Area is estimated to reach RMB200 billion in 2020, which shall represent a 47.9% increase when compared to its GDP in 2015. In addition, according to Thirteenth Five-year Plan of Luzhou, the urban area of Luzhou Area is expected to expand from approximately 120 sq.km in 2015 to 200 sq.km in 2020 and the corresponding urban population is expected to increase from approximately 1.2 million in 2015 to 2.0 million in 2020. The demand of water supply in Luzhou Area is expected to increase alongside the projected population and economic growth.

The municipal water supply capacity of Luzhou Area increased from 270,500 tons per day in 2010 to 283,500 tons per day in 2015, representing a CAGR of 1.2 % during the period. Further economic development and the implementation of development plans in the Luzhou Area in the next five years are expected to support further development of the water supply industry in the area. Base on the Frost & Sullivan Report, if the urbanisation process and population growth in the Luzhou Area increase as projected by 2020, the water supply capacity of Luzhou Area is expected to reach approximately 500,500 tons per day in 2020, representing a CAGR of 12.0% from 2015 to 2020. The continuous and foreseeable social and economic development of Luzhou Area is expected to back up the future substantial growth of municipal water supply market and wastewater treatment market of Luzhou Area. According to the Thirteenth Five-year Plan of Luzhou, the GDP of Luzhou is estimated to reach RMB200 billion in 2020, representing 47.9% increase of 2015. Under the predictable economic growth target of Luzhou Area, the urban development of Luzhou Area is also estimated to keep pace with the economic growth, the area of Luzhou's urban area is expected to expand from nearly 120 sq.km in 2015 to 200 sq.km and the population of Luzhou's urban area is planned to increase from nearly 1.2 million in 2015 to 2.0 million. By the end of 2020, the urbanisation rate of residential population is planned to reach 58.5% as compared with 46.1% in 2015.

As of 31 December 2015, we were the largest tap water supplier in terms of supply capacity in Luzhou Area with a market share of approximately 83.0%, according to the Frost & Sullivan Report.

**Market Condition and Competitive Landscape of Municipal Water Supply Industry**

China's municipal water supply market is highly fragmented and has relatively strong regional barriers. Local governments usually tend to choose local SOEs as the operators of municipal water supply plants. As a result, SOEs have very strong market presence. The PRC government is currently encouraging private sector investment into the municipal water supply industry and some non-SOEs, have successfully enlarged their businesses in this market. Nevertheless, going forward, SOEs are still likely to hold significant market shares in this industry.

### Top Ten Municipal Water Supply Companies by Supply Capacity in Sichuan Province

The table below sets forth the top ten municipal water supply companies by supply capacity in Sichuan Province in 2015:

| Ranking | Company | Capacity | Market Share |
|---|---|---|---|
| | | ('000 $m^3$/day) | % |
| 1 | Company A | 1,920 | 14.4% |
| 2 | Company B | 312 | 2.3% |
| 3 | Company C | 300 | 2.3% |
| 4 | Company D | 250 | 1.9% |
| 5 | Company E | 245 | 1.8% |
| 6 | Company F | 237 | 1.8% |
| 7 | The Group | 236 | 1.8% |
| 8 | Company G | 235 | 1.8% |
| 9 | Company H | 210 | 1.6% |
| 10 | Company I | 200 | 1.5% |
| Top 10 | | 4,145 | 31.1% |
| Others | | 9,181 | 68.9% |
| **Total** | | 13,326 | 100% |

*Source: the Frost & Sullivan Report*

The table below sets forth the top five municipal water supply companies by sales volume in Sichuan Province in 2015:

| Ranking | Company | Sales Volume | Share |
|---|---|---|---|
| | | (million tons) | % |
| 1 | Company A | 646.1 | 24.0% |
| 2 | The Group | 76.2 | 2.8% |
| 3 | Company B | 75.0 | 2.8% |
| 4 | Company E | 61.2 | 2.3% |
| 5 | Company C | 59.5 | 2.2% |
| Top 5 | | 918.0 | 34.2% |
| Others | | 1,768.9 | 65.8% |
| **Total** | | 2,686.9 | 100% |

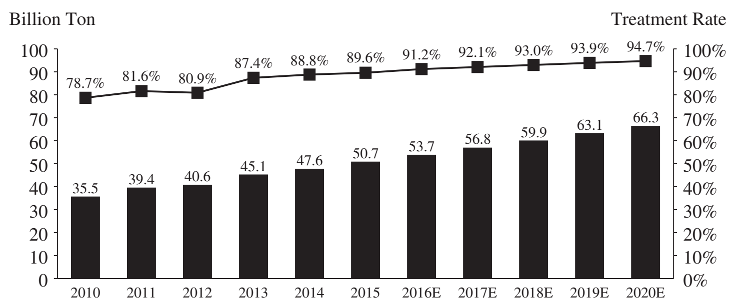
*Source: the Frost & Sullivan Report*

## WASTEWATER TREATMENT INDUSTRY

### Wastewater Treatment Industry in China

Municipal wastewater treatment in China has been experiencing rapid growth since 1980s. Driven by the increase in total treatment capacity and average treatment rate of municipal wastewater plants, the treatment volume of municipal wastewater in China increased from 35.5 billion ton in 2010 to 50.7 billion ton in 2015, representing a CAGR of 7.4%. The annual treatment volume is expected to reach approximately 66.3 billion ton in 2020, representing a CAGR of 5.5%. With gradual improvement of treatment facilities and sewage networks, treatment rate of municipal wastewater in China has increase from 78.7% in 2010 to 89.6% in 2015. The treatment rate still has much room for growth in counties and townships. By 2020, total treatment rate of municipal wastewater is expected to reach 94.7%.

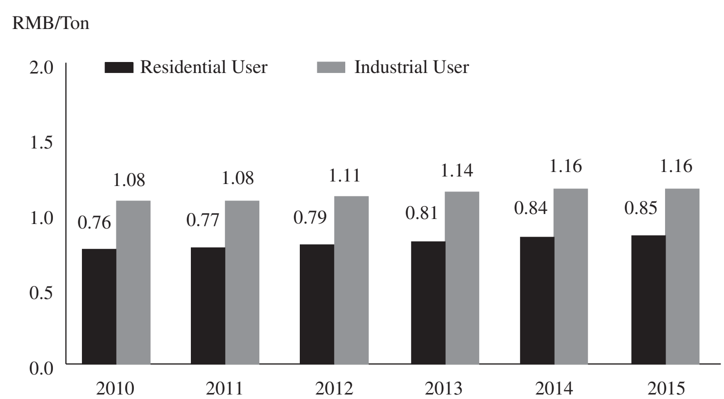
The chart below sets forth the wastewater treatment volume and treatment rate in China for the years indicated:




*Source: the Frost & Sullivan Report and Ministry of Housing and Urban-Rural Development*

The average treatment fee for residential wastewater experienced a steady growth in the past decade, increasing from RMB0.76 per ton in 2010 to RMB0.85 per ton in 2015. The average treatment fee for industrial wastewater also increased from RMB1.08 per ton in 2010 to RMB1.16 per ton in 2015. Wastewater treatment fees are set by the competent local government authorities and are likely to continue to increase in the future due to demand and supportive government policies.

The chart below sets forth the average treatment fee in China for the years indicated:

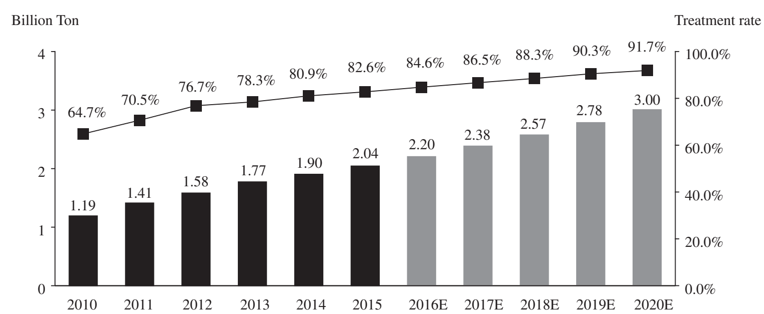



*Source: the Frost & Sullivan Report and Ministry of Housing and Urban-Rural Development*

**Wastewater Treatment Industry in Sichuan Province**

There is strong demand for wastewater treatment in Sichuan Province as the discharge volume of municipal wastewater increased from 1.8 billion ton in 2010 to 2.5 billion ton in 2015, representing a CAGR of 6.1%. Discharge volume of municipal wastewater is expected to reach 3.3 billion by 2020. The infrastructure of wastewater treatment in Sichuan Province is well-established compared with some other provinces in West China. Due to increasing discharge volume, the municipal wastewater treatment volume experienced a rapid increase from 1.2 billion ton in 2010 to 2.0 billion ton in 2015, representing a CAGR of 11.4%. The treatment volume is expected to increase to approximately 3.0 billion ton in 2020, representing a CAGR of 8.0%. Similarly, the treatment rate is also improving during the same period. The treatment percentage of municipal wastewater in Sichuan Province increased from 64.7% in 2010 to 82.6% in 2015. Driven by the construction of new treatment facilities in counties and townships, the treatment percentage in Sichuan Province is expected to further increase to 91.7% by 2020.

The chart below sets forth the municipal wastewater treatment volume and treatment rate in Sichuan Province for the years indicated:




*Source: the Frost & Sullivan Report and Ministry of Housing and Urban-Rural Development*

**Wastewater Treatment Industry in Luzhou Area**

The municipal wastewater treatment capacity of Luzhou Area increased from 103,500 tons per day in 2010 to 161,000 tons per day in 2015, representing a CAGR of 9.2%. Potential population growth combined with the rapid economic growth and further development of urban infrastructure in Luzhou Area is expected to increase the demand of wastewater treatment in the Luzhou area. In addition, according to the Thirteenth Five-year Plan of Luzhou and Action Plan for Water Pollution Prevention and Control of Luzhou, the municipal wastewater treatment rate of Luzhou Area is expected to reach 95%. This should also help drive the municipal wastewater treatment industry development in the Luzhou Area. According to the Frost & Sullivan Report, the wastewater treatment capacity of Luzhou Area is estimated to reach nearly 313,000 tons per day in 2020, representing a CAGR of 14.2% from 2015 to 2020. Based on the Thirteenth Five-year Plan of Luzhou, the GDP of Luzhou is estimated to reach RMB200 billion in 2020 - an increase of 47.9% from 2015. Further, Luzhou's urban area is expected to expand from approximately 120 sq.km in 2015 to 200 sq.km in 2020. By end of 2020, it is estimated that Luzhou's urbanisation rate will increase from with 46.1% in 2015 to 58.5%, with the population of Luzhou's urban area growing from approximately 1.2 million in 2015 to 2.0 million in 2020 - an increase of nearly 66.7%. Based on the above foreseeable economic and population growth as well as social development in Luzhou, demand for water supply and wastewater treatment facilities in Luzhou is expected to increase. As the dominating municipal water supply service provider and sole municipal wastewater treatment service provider in Luzhou, the Group is considered as the major party responsible in fulfilling this future demand for water supply and wastewater treatment in Luzhou. In response to this, the Group has embarked on an expansion plan in the following years. The Group's expansion plan is expected to drive the growth of wastewater treatment capacity in the Luzhou Area from 2015 to 2020.

As of 31 December 2015, we were the sole wastewater treatment service provider at the county and urban district level of Luzhou Area.

**Market Condition and Competitive Landscape of Wastewater Treatment Industry**

The overall Chinese municipal wastewater treatment market consists of three types of competitors, namely SOEs, privately-owned domestic companies and foreign companies. This market is highly fragmented with hundreds of companies in operations. The majority of the market shares are held by SOEs. Meanwhile, privately-owned domestic companies are gradually emerging as an important force in the market. There are also a few foreign wastewater treatment companies operating in China. These foreign companies usually establish joint-venture entities to expand their business into China.

**Top Five Municipal Wastewater Treatment Companies by Treatment Capacity in Sichuan Province**

The table below sets forth the top five municipal wastewater treatment companies by treatment capacity in Sichuan Province in 2015:

| Ranking | Company | Capacity | Market Share |
|---|---|---|---|
| | | ('000 $m^3$/day) | % |
| 1 | Company A | 1,900 | 28.2% |
| 2 | Company J | 590 | 8.8% |
| 3 | Company K | 527 | 7.8% |
| 4 | The Group | 161 | 2.4% |
| 5 | Company G | 150 | 2.2% |
| Top 5 | | 3,328 | 49.5% |
| Others | | 3,400 | 50.5% |
| **Total** | | 6,728 | 100% |

*Source: the Frost & Sullivan Report*

## THE GROUP'S MARKET POSITION

The Group is an integrated municipal water service providers in Sichuan Province. The table below sets forth the top five municipal water service providers by number of plants in Sichuan in 2015:

| Ranking | Company | Total Plants Number | Total Water Supply Plants | Total Wastewater Treatment Plants |
|---|---|---|---|---|
| 1 | Company L | 20 | 6 | 14 |
| 2 | Company B | 14 | 8 | 6 |
| 2 | Company A | 14 | 6 | 8 |
| 4 | The Group | 13 | 6 | 7 |
| 5 | Company F | 10 | 9 | 1 |
| Top 5 | | 70 | 34 | 36 |

*Source: the Frost & Sullivan Report*

The Group is the dominant municipal water supply and wastewater treatment service provider in Luzhou Area. As of 31 December 2015, the Group was the largest tap water supply in terms of municipal water supply capacity in Luzhou Area with a market share of approximately 83.0%. As of 31 December 2015, the Group was the only wastewater treatment service provider in Luzhou Area.

Due to its geographic and strategic importance in Sichuan Province, Luzhou Area is expected to receive considerable policy and capital support from the government for economic development, as south-west China region is regarded as a key area for future development by the PRC central government. In addition, the new urbanisation push by the PRC government should also bring substantial growth opportunities to Luzhou Area. Driven by the expected population and economic growth in Luzhou Area, the demand of water supply and wastewater treatment in Luzhou Area is expected to keep increasing. The Group is expected to continue to benefit from its dominant position in Luzhou Area.

## PRICE FOR RAW MATERIALS

For municipal water supply and municipal wastewater treatment operations, key production costs include electricity and chemicals.

Electricity cost constitutes a large part of the overall cost for municipal water supply and municipal wastewater treatment operations. The prices of electricity are set by NDRC and vary by voltage. In Sichuan, the electricity prices for large industrial users were adjusted twice in the period from 2010 to 2015, including a general increase in prices in July 2012 and a general decrease in prices in April 2015. However, fluctuation of raw material prices and electricity prices are unlikely to have a significant impact on the profitability of municipal water companies as local governments usually adjust the water tariff according to the fluctuation of water companies' costs.

The table below sets forth the electricity price for large industrial users in Sichuan Province for the periods indicated:

| Electricity Price for Large Industrial Users in Sichuan Province （RMB/Kilowatt-hour） | | | | |
|---|---|---|---|---|
| Adjustment Date | 1-10KV | 35-110KV | 110KV | >220KV |
| November 2009 | 0.586 | 0.566 | 0.546 | 0.526 |
| July 2012 | 0.620 | 0.600 | 0.580 | 0.560 |
| April 2015 | 0.539 | 0.519 | 0.499 | 0.479 |

*Source: NDRC, Price Administration Bureau of Sichuan, Price Administration Bureau of Chengdu and the Frost & Sullivan Report*

Chlorine is a commonly used water treatment chemical for municipal water supply companies. The price remained around RMB600 per ton from 2013 to 2015, and is expected to remain stable in the coming years. CPAM (cationic polyacrylamide) is one of the major wastewater treatment chemicals. It's prices has witnessed a gradual decline in recent years, dropping from RMB19.3 thousand per metric ton in 2013 to RMB17.0 thousand per metric ton in 2015 and is expected to have a moderate decline in the near future.

## OVERVIEW

We are an integrated municipal water service provider in Sichuan. 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 concession arrangements, sanitary standards, operation qualification, environmental protection, labour protection, taxation and foreign exchange management in municipal public utilities projects including water supply and wastewater treatment. Any violation of those laws and regulations would have a negative impact on our business operations and future development.

## CORPORATE STRUCTURE

The establishment, operation and management of our Company and our subsidiaries shall be in compliance with the PRC Company Law and its relevant laws and regulations. On 29 December 1993, the Standing Committee of the National People's Congress (the "**NPC**") of the PRC promulgated the PRC Company Law which was last amended on 28 December 2013. The establishment and operation of corporate entities in the PRC is governed by the PRC Company Law. The PRC Company Law generally governs two types of companies — limited liability companies and joint stock limited companies. Both types of companies have the status of legal persons, and the liability of a company to its debtor is limited to the value of assets owned by the Company. The establishment of a limited liability company shall be subject to the capital contribution by not more than 50 shareholders. To establish a joint-stock company, there shall be not less than two but not more than 200 promoters, of whom more than half shall have domiciles within the territory of China.

## CONCESSION IN MUNICIPAL PUBLIC UTILITIES PROJECTS

According to the Concession Rights Measures, the relevant regulations governing the grant of concession rights for municipal public utilities projects are applicable to municipal public utilities projects including tap water supply and wastewater treatment 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. However, the Concession Rights Measures provide no penalty for acquisition of concession rights without adopting competitive bidding process. The Concession Rights 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 Concession Rights Measures require that rectification can be made by entering into written concession agreements in a timely manner. Moreover, according to the Concession Rights Measures, the terms of concession rights for municipal public utilities projects should not exceed 30 years. After the expiration of the term, governments should organise biddings and re-select the concessionaire by relevant procedures. Under the same condition, preferential access to concession rights shall be given to the former concessionaire.

The above provisions had made relevant regulations on the access to and terms of concession rights, the qualification of enterprises applying for concession rights, main contents of concession contract, responsibility for enterprises with concession rights and changes and termination of concession rights and others.

### 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》), the terms of concession rights for municipal public utilities projects should not exceed 30 years. After the expiration of the term, governments should organise biddings and re-select the concessionaire by relevant procedures.

### Pricing

According to the Measures for the Administration on the Price of Municipal Water Supply (《城市供水價格管理辦法》) promulgated on 23 September 1998 and amended on 29 November 2004 by the NDRC and the former Ministry of Construction, the competent price departments of the government at or above county level shall be the competent departments for the municipal water supply price. The price of municipal water supply is set by the government. 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 and examined and verified by the competent price departments of the local municipal people's government when there is a need to adjust the price of water supply. The price shall be 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 of the upper level government 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 Chinese People's Political Consultative Conference (the "**CPPCC**") members, relevant departments and representatives of consumers from all sectors to participate in. 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.

According to the Notice on Decentralizing Pricing in Relation to Non-residential and Special Purpose Usage Tap Water Retail Price [2015] 844 (Chuan Fa Gai Jia Ge [2015] No. 844) jointly issued by Sichuan Development and Reform Commission and Sichuan Province Housing and Urban-rural Development Bureau on 23 November 2015, market price shall be set for tap water retail price for non-residential and special purpose usage in Sichuan Province (hereinafter "**Non-residential Water Supply Price**") and determined by various tap water suppliers by taking into consideration the production and operation costs, social carrying capacity, condition of water resources, reasonable proportion against residential water price and other factors. Sewage treatment fees, water resources charges and related fees collected by water suppliers as agents, which are originally included in the Non-residential Water Supply Price, shall remain to be collected by such water suppliers as agents based on the required standards.

According to the Regulations on Urban Drainage and Sewage Treatment (《城鎮排水與污水處理條例》) 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 competent departments of urban drainage shall determine operating service fee of urban wastewater treatment facilities in accordance with the compliance of maintenance and operation contract by maintenance and operation unit of urban wastewater treatment facilities and the results of supervisory inspection of quality and volume of water outflow of the urban wastewater treatment facilities by the competent departments of environmental protection. Relevant departments of local people's governments shall timely and sufficiently allocate operation and service fee of urban wastewater treatment facilities.

**Water Quality**

The water quality of 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》) (GB5749-2006) promulgated on 26 January 2007 and implemented on 1 July 2007. According to the Water Quality Management Provisions for Urban Water Supply (《城市供水水質管理規定》) promulgated on 1 March 2007 and implemented on 1 May 2007 by the former Ministry of Construction, unban water supply unit is responsible for the water quality supplied and shall regularly test the quality of raw water, treated water and pipe network water in accordance with testing items, frequencies and relevant standards stipulated by the PRC, and accordingly report water testing data to competent departments of local urban water supply of people's governments of municipalities, cities and counties.

The water quality of effluent flowing, exhaust emission and sludge disposal 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. Pursuant to the Regulations on Urban Drainage and Sewage Treatment (《城鎮排水與污水處理條例》), wastewater treatment plant shall test the quality of water inflow and outflow in accordance with relevant national requirements and submit to competent departments of drainage and competent departments of environmental protection information on the water quality and volume of sewage treatment as well as the volume of reduction of major pollutants.

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) stipulates the regulated pollutants in the effluent, exhaust gas and sludge discharged from municipal wastewater treatment plants and the respective standard values in various phases. From the effective date of the Discharge Standard of Pollutants for Municipal Wastewater Treatment Plant, control on water and air pollutant emission and sludge discharged by municipal wastewater treatment plants shall comply with the Discharge Standard of Pollutants for Municipal Wastewater Treatment Plant. Sewage discharged from industrial plants and hospitals to municipal wastewater treatment plants shall fulfill the requirements of GB8978 Integrated Sewage Discharge Standards (《污水綜合排放標準》), the national discharge standards for relevant industries, the respective specified limit values of local discharge standards and the local total emission control.

The Discharge Standard of Pollutants for Municipal Wastewater Treatment Plant stipulates the regulated pollutants in effluent from municipal wastewater treatment plants and the standard values, details of which are set out below:

***A. Regulated pollutants and classification***

Pursuant to the source and nature of pollutants, regulated pollutants are divided into two categories: basic regulated pollutants and optional regulated pollutants. Basic regulated pollutants, with 19 items in aggregate, mainly consist of conventional pollutants which affect the water environment and can be removed in regular treatment process of municipal wastewater treatment plants, with 12 items in aggregate, as well as certain primary pollutants (i.e. primary heavy metal pollutants with 7 items in aggregate). Optional regulated pollutants, with 43 items in aggregate, include pollutants which have relatively long-term impact or greater toxicity.

It is mandatory to implement control on basic regulated pollutants. For optional regulated pollutants, the competent local environmental protection authority shall have the decision to implement control in accordance with the categories of industrial pollutants discharged to the wastewater treatment plants and the water quality requirements.

***B. Standard classification***

Pursuant to the environmental function and the protection objectives of surface water area to which the effluent from municipal wastewater treatment plants flows and also the treatment process of wastewater treatment plants, the standard values for conventional pollutants under basic regulated pollutants are divided into Class I, Class II and Class III, while Class I is further divided into Standard A and Standard B. Type I heavy metal pollutants in basic regulated pollutants and optional regulated pollutants are not classified.

**a. Class I**

– Standard A under Class I is the basic requirement for the effluent from municipal wastewater treatment plants to be used as recycled water. Standard A under Class I is implemented when the effluent from wastewater treatment plants is led into rivers and lakes with lower dilution capacity as urban landscape water, recycled water or other uses and led into enclosed and semi-enclosed water bodies such as key river basins, lakes and reservoirs as confirmed by the country and the province.

– Standard B under Class I is implemented when the effluent is led into GB3838 Surface Water Category III Functional Water Bodies (except for appointed areas of protected drinking water sources and swimming water) and GB3097 Seawater Category II Functional Waters.

**b. Class II**

Class II standard is implemented when the effluent from wastewater treatment plants is led into GB3838 Surface Water Category IV and Category V Functional Water Bodies or GB3097 Seawater Category III and Category IV Functional Waters.

**c. Class III**

According to the local economic conditions and requirements for water pollution control, wastewater treatment plants of designated towns outside key control basins and water source protection areas shall implement Class III standard in Level I enhanced treatment process(1) which is a relatively preliminary treatment process. However, the Level II treatment facilities(2) shall be reserved to approach Class II standard in phases.

*Notes:*

(1) According to the Standards of Discharged Water for Urban Wastewater Treatment Plants, "Level I enhanced treatment process" means the addition of chemical coagulation treatment, mechanical distillation or partial biological treatment on the basis of conventional Level I treatment (gravitational settling) for the enhancement of treatment effect of Level I treatment process.

(2) According to the "Construction Standards of Urban Wastewater Treatment Project" (amended) promulgated by former Ministry of construction and former National Development and Reform Commission on 16 April 2001, "Level II treatment facilities" refers to the entire or partial projects set out in Level I wastewater treatment (generally including slag removal, wastewater treatment, grit sediment, precipitation, sterilisation and emission facilities, and facilities such as medication can be added when enhancing Level I treatment) and biological treatment system facilities according to the features of Level II treatment process (i.e. the treatment process of main body with biological treatment).

***C. Standard values***

The Standards of Discharged Water for Urban Wastewater Treatment Plants stipulate the standard values of basic regulated pollutants of discharged water for urban wastewater treatment plants (including 12 conventional pollutants and 7 primary heavy metal pollutants) as well as 43 optional regulated pollutants. For the standard value of Class I of conventional pollutants in basic regulated pollutants of discharged water for urban wastewater treatment plants, please see "Our Business — Our Wastewater Treatment Services — Overview".

**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 on Strengthening the Supervision of Municipal Public Utilities (《關於加強市政公用事業監管的意見》), governments should guide and supervise the concession activities of municipal public utilities which include: market access and exit, operational security, quality of the product and service, price and charge, pipeline network system and market competition order. Government's forms of supervision mainly include 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 authorisation;

(2) Dispose of or mortgage business assets without authorisation;

(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

### Operation Qualification Certificates

According to the Supervision Measures on Operations of Urban Water Supply and Drainage Operating Entities in Sichuan Province (《四川省城鎮供水排水運營單位運行監管辦法》) urban water supply and drainage operating entities shall obtain the Qualification Certificate of Operation Assessment for Urban Water Supply Enterprises or Qualification Certificate of Operation Assessment for Urban Sewage Treatment Plants (collectively, the "**Operation Qualification Certificates**") issued by the Housing and Urban-Rural Development Bureau of Sichuan prior to operations. In addition, the water supply operating entities shall also apply for Health Permit to health administrative departments, and drainage operating entities shall apply for Wastewater Discharge Permit and Qualification Certificate for Operation of Environmental Pollution Treatment Facilities to Environmental Protection Bureau of Sichuan.

The Operation Qualification Certificates of water supply and drainage operating entities are valid for three years, and upon their expiration, the Housing and Urban-Rural Development Bureau of Sichuan shall review the operation conditions of the licensed entities. If the review is passed, Operation Qualification Certificates shall be re-issued, otherwise rectification within a certain period shall be imposed.

As urban water supply and drainage operating entities, our Company and our relevant subsidiaries are obliged to be in compliance with the aforesaid laws and regulations on Operation Qualification Certificates.

### 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 9 July 1996 and amended on 17 April 2016, the State implements the Health Permit system for the water supply units and the products involving drinking water safety. A centralised water supply unit must obtain a Health Permit issued by the health administrative department of the local people's government at or above the county level. The term of validity of a Health Permit is four years. The water supply units shall reapply for recertification within 6 months prior to expiration of the Health Permit.

As water supply units, our Company and our relevant subsidiaries are subject to the aforesaid laws and regulations on Health Permit.

**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 sewage without discharge permit or in violation of the provisions of the discharge permit.

As enterprises operating centralised treatment facilities of urban wastewater, our relevant subsidiaries are subject to the aforesaid laws and regulations on Wastewater Discharge Permit.

**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 21 January 1988 and amended on 2 July 2016, 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 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 legal requirements, entities and individuals which obtain water resources from rivers, lakes and underground water and have water extradition works or facilities completed and operated for over 30-day, shall apply for Water Intake 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 by 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 Intake 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.

As water intake entities, our Company and our relevant subsidiaries are subject to the aforesaid laws and regulations on Water Intake Permit.

**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 amended on 18 July 2013 and 29 July 2014, respectively, by the State Council, 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. 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.

As construction enterprises engaging in production activities, our relevant subsidiaries are subject to the aforesaid laws and regulations on Work Safety Licenses.

**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 26 June 2007 and amended on 22 January 2015 by the former Ministry of Construction, construction enterprises engaging in activities including new, extended and conversed works of civil engineering, construction, installation of lines, pipes and equipment and decoration construction shall apply for Construction Enterprise Qualification according to their registered capital, professional technical staff, technology and equipment and performance records of their completed construction works and they shall engage in construction activities within the scope permitted by their qualification levels after passing the qualification examination and obtaining qualification certificates for their respective levels. The qualification of construction enterprises was divided into three sequences, namely full contracting of construction, professional contracting and labour subcontracting. The valid period for Construction Enterprise Qualification is 5 years.

As construction enterprises engaging in activities including new, extended and conversed works of civil engineering, construction, installation of lines, pipes and equipment and decoration construction, our relevant subsidiaries are obliged to be in compliance with the aforesaid laws and regulations on Construction Enterprise Qualification.

**Qualification for Designing of Construction Projects**

According to the Regulations on Administration of Surveying and Designing of Construction Projects (《建設工程勘察設計管理條例》) promulgated and implemented by the State Council on 12 June 2015, and the Measures of Regulations on the Qualification for Surveying and Designing of Construction Projects (《建設工程勘察設計資質管理規定》) promulgated on 26 June 2007 and amended on 4 May 2015 by the former Ministry of Construction, an enterprise engaged in the designing of construction projects shall, prior to the commencement of the designing of a construction project, apply for and acquire Qualification for Designing of Construction Projects. No enterprises may engage in the designing of construction projects without Qualification Certificates for Designing of Construction Projects. The valid period for a Qualification Certificates for Designing of Construction Projects shall be 5 years.

As enterprises engaged in the designing of construction projects, our relevant subsidiaries are subject to the aforesaid leads and regulations on qualification for Designing of Construction Projects.

**Measurement Certificate of Inspection and Testing Agencies**

According to the Metrology Law of the PRC (《中華人民共和國計量法》) promulgated and implemented on 24 April 2015, and the Administrative Measures for the Qualification Recognition of Inspection and Testing Agencies (《檢驗檢測機構資質認定管理辦法》) promulgated by the General Administration of Quality Supervision, Inspection and Quarantine and implemented on 1 August 2015, a product quality inspection agency which is to provide notarial data on the quality of products for society must be checked for its capability and reliability of metrological verification and testing by the metrological administrative department of a people's government at or above the provincial level and shall obtain a Measurement Certificate of Inspection and Testing Agencies.

As product quality inspection entities which is to provide notarial data on the quality of products for society, our Company and our relevant subsidiaries are obliged to be in compliance with the aforesaid laws and regulations on Measurement Certificate of Inspection and Testing Agencies.

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

The construction and operation of our Group shall be in compliance with the following environmental protection laws and regulations in the PRC.

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, amended on 24 April 2014 and implemented on 1 January 2015 by the National People's Congress Standing Committee, enterprises and institutions discharging pollutants and other producers and operators shall adopt measures to avoid and control the pollution and damage caused to the environment incurred during the production, construction or other activities. Pollution prevention facilities in construction projects shall be designed, built and put into operation together with the main part of the project. Construction projects can only be put into operation after the environmental protection authority has examined and approved the pollution prevention facilities. 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. In case the enterprises, public institutions and other manufacturers and business operators violate the laws and regulations to discharge pollutants, which causes or might cause severe pollution, the competent department of environmental protection and other departments responsible for the supervision and administration of environmental protection under the people's governments above the county level may seal up and sequester their facilities and equipment discharging pollutants.

According to the Law of the PRC on Appraising of Environment Impact (《中華人民共和國環境影響評價法》) promulgated on 28 October 2002 and amended on 2 July 2016 and the Provisions on Approval of Environmental Impact Assessment Documents Concerning Construction Projects at Different Administrative Levels (《建設項目環境影響評價文件分級審批規定》), the state government of the PRC has set up a system to appraise the environmental impact of construction projects, and classify and administer the environmental impact appraisals in accordance with the degree of environmental impact. If a construction project may result in a material impact on the environment, an environmental impact report is required, which thoroughly appraises the potential environmental impact. If the construction project may result in a slight impact on the environment, an environmental impact report of analysing or appraising the specific potential environmental impact is required, and if the construction project may result in very little impact on the environment, an environmental impact appraisal is not required but an environmental impact form shall be filed. The report for registration shall be approved by the competent administrative authority before construction commences. Approval authority at different levels on environmental impact assessment documents concerning construction projects is, in principle, determined in accordance with the authority on the approval, verification and registration of the construction projects and the nature and degree of its environmental impact.

According to the Administrative Regulations for the Environmental Protection of Construction Projects (《建設項目環境保護管理條例》) promulgated and implemented by the State Council on 29 November 1998 and the Administrative Measures for the Examination and Approval of Environmental Protection Facilities of Construction Projects (《建設項目竣工環境保護驗收管理辦法》) promulgated by former State Administration for Environmental Protection on 17 December 2001 and implemented on 1 February 2002 and revised on 22 December 2010, before the trial production of the construction projects, construction entities shall apply to the competent environmental protection authority for the environmental protection inspection acceptance for trial production; upon the completion of the construction project and before the project is put into production or use, construction entities shall apply to the competent environmental protection authority for the environmental protection inspection acceptance for the completion of construction projects; the construction projects will be only put into production or use upon obtaining the inspection approval of the environmental protection facilities of their supporting facilities which should be put into production or operation in tandem with the main part of the project.

According to the Circular on Discontinuation of Approving the Trial Production of Construction Projects by Competent Departments of Environmental Protection (關於環境保護主管部門不再進行建設項目試生產審批的公告) promulgated by the Ministry of Environmental Protection on 8 April 2016, the competent departments of environmental protection at provincial, municipal or county level will discontinue the acceptance of application for trial production of construction projects and the approval of the trial production of construction projects.

## LAND, PLANNING AND CONSTRUCTION PERMITS

The construction and operation of our Group shall be in compliance with the following laws and regulations in relation to 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, with respect to the lands used for the water supply facilities (including the water origin, water intake project, water purification plant, water transporting and distributing project, water quality testing center, despatching center and control center) and the environmental sanitation facilities (including rain treatment facility and wastewater treatment plant) and other urban infrastructure, land use rights will be granted to the construction units by an application to 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 and amended on 24 April 2015, 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 above the county level shall cancel any relevant authorisation document. If the land has already been occupied, it shall be returned promptly. Furthermore, the construction entity shall be obliged to compensate for any damage caused to any other relevant parties according to law.

**Construction Work Planning Permit**

According to the Urban and Rural Planning Law, 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.

**Commencement of Construction Work 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 amended on 22 April 2011 by the Standing Committee of the National People's Congress, a construction entity shall, prior to the commencement of a construction project, such as construction of various properties and their ancillary facilities as well as the installation of wiring, piping and equipment, 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 contractual construction price.

**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》) and Administrative Measures for Recording of the Inspection and Acceptance on Construction Completion of Buildings and Municipal Infrastructure (《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

Our Group is governed by PRC laws and regulations relating to 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 further revised on 28 December 2012 together with relevant labour laws and regulations, if an employment relationship is established between the employer and its employees, written labour contracts shall be prepared and financial remuneration shall be paid by the employer to its employees. Such contracts shall stipulate statutory working hours and breaks and holiday system, guaranteeing the labours' rights of enjoying safe and healthy working environment and social insurance, and can only be terminated in accordance with relevant laws.

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.

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, the employer must register with the applicable housing fund management center and establish a special housing fund account in an entrusted bank. When employing new staff or workers, the employer shall undertake housing provident fund payment and deposit registration at a housing provident fund management center within 30 days from the date of the employment. The housing provident fund shall be contributed by both the employer and the employee. The employer shall pay the housing provident fund in the amount of the average monthly salary of the employer in the previous year times a certain deposited ratio designated to the employer, which shall not be less than 5% of an individual employee's monthly average wage of the preceding year. The employer shall pay up and deposit housing provident fund contributions in full in a timely manner. Late or insufficient payments are prohibited.

## TAXATION

PRC laws and regulations of major tax imposed on our Group are as follows:

### EIT

According to the EIT Law 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) promulgated on 6 December 2007 and with effect from 1 January 2008, 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 EIT originating both within and outside the PRC, at the rate of 25%.

According to Notice on Further Implementation of the Relevant Tax Policies of the Western Development Strategy (《關於深入實施西部大開發戰略有關稅收政策問題的通知》) published by the MoF, General Administration of Customs and SAT on 27 July 2011, from 1 January 2011 to 31 December 2020, an enterprise in western area engaged in industries encouraged is subjected to the EIT rate of 15%. Enterprises engaging in industries encouraged refer to the enterprises whose principal businesses belong to the items of encouraged industries prescribed in the Catalog of Encouraged Industries in the Western Region (西部地區鼓勵類產業目錄), of which their income from principal businesses accounted for more than 70% of their total income.

According to the EIT Law and the Implementation Rules to the Enterprise Income Tax Law, the income incurred from environmental protection projects or energy and water saving projects which meet relevant requirements, including public wastewater treatment, shall be exempted from EIT for three years commencing from the first revenue-generating year of operations, and thereafter be entitled to a 50% reduction from EIT for the next three years. For the amount of investment in purchase of equipment for environmental protection, energy and water saving and work safety, tax credit may be implemented by the entity with a certain percentage.

**Business Tax**

According to the Interim Regulations of the PRC on Business Tax (中華人民共和國營業稅暫行條例) promulgated on 13 December 1993 and last amended on 10 November 2008, sales of tap water under our tap water supply business was not subject to Business tax during the Track Record Period, while business tax was charged on our installation and maintenance services under tap water supply business before 1 May 2016 during the Track Record Period On 23 March 2016, the MoF and the SAT jointly promulgated the Circular Regarding the Comprehensive Implementation of Pilot for Replacement of Business Tax with Value-Added Tax (《關於全面推開營業稅改徵增值稅試點的通知》), which stipulated that as approved by the State Council, the replacement of business tax with VAT (the "**VAT Pilot Program**") will be fully implemented nationwide from 1 May 2016, to include the business tax payers operating in the industries such as construction, real estate, finance and life services in the VAT Pilot Program to pay VAT instead of business tax, except for trial industries previously launched. As a result, business tax charged on our installation and maintenance services under our tap water supply business was shifted from business tax to VAT according to the VAT Pilot Program that was implemented in May 2016.

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覆》) promulgated and implemented by the SAT 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 was levied on the wastewater treatment tariff during the Track Record Period.

**Value Added Tax**

Our sales of tap water under tap water supply business was subject to VAT during the Track Record Period according to Notice on Application of Low VAT on Certain Goods and Simplified VAT Collection Measure (《關於部分貨物適用增值稅低稅率和簡易辦法徵收增值稅政策的通知》) promulgated in January 2009 and Notice on Decrease and Simplification Policy for VAT Collection (《關於簡並增值稅徵收率政策的通知》) promulgated in June 2014. VAT has been charged on our installation and maintenance services under tap water supply business from 1 May 2016 according to the VAT Pilot Program that was promulgated on 23 March 2016.

In respect of our wastewater treatment business, no VAT was charged on our wastewater treatment tariff prior to 1 July 2015 and we have been charged VAT with an applicable rate of 17% on the wastewater treatment tariff beginning from 1 July 2015 but with a 70% refund of the VAT paid. According to the Notice on Directory of VAT Concessions on Comprehensive Utilisation of Goods and Services (關於資源綜合利用產品和勞務增值稅優惠目錄的通知) (Cai Shui [2015] No. 78) ("**Notice 78**") promulgated by the SAT and the MoF and effective from 1 July 2015, from 1 July 2015, if the processed waste water of the waste water treatment enterprises is in compliance with the technical requirements as stipulated by 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) or meets the direct discharge limit value of respective national or local water pollutants discharge standard, then the enterprises may enjoy VAT concessions upon collection policies, and the tax refund ratio is 70%.

**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》) promulgated on 8 February 1985 and implemented on 1 January 1985, and amended on 8 January 2011, any unit or individual liable to consumption tax, VAT 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, VAT 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》) promulgated on 28 April 1986 and implemented on 1 July 1986 and revised on 8 January 2011, all units and individuals who pay consumption tax, VAT 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 VAT, business tax and consumption tax actually paid by each unit or individual, and the educational surtax shall be paid simultaneously with VAT, business tax and consumption tax.

**Fiscal Subsidy**

Our Group is governed by the PRC laws and regulations of fiscal subsidy.

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, a subsidy would be granted by the local people's government.

Pursuant to the Interim Administrative Measures for Special Funds for Urban Pipe Networks (《城市管網專項資金管理暫行辦法》) promulgated and implemented by the MoF and the Ministry of Housing and Urban-Rural Development on 1 June 2015, special funds for urban pipeline and network shall be arranged in the central fiscal budget to support other matters requiring support regarding urban ecological space constructions such as the construction of the supported pipeline and network of urban sewage treatment facilities and the sewage pumping stations. Regions that support matters in relation to the construction of the supported pipeline and network for urban sewage treatment facilities and the sewage pumping stations shall be rewarded based on the annual scale of funds and the progress of construction tasks.

## FOREIGN EXCHANGE MANAGEMENT

Our Group is governed by the following PRC laws and regulations of foreign exchange management.

According to the requirements of the Regulations of the People's Republic of China on Foreign Exchange Administration (《中華人民共和國外匯管理條例》) promulgated on 29 January 1996, implemented from 1 April 1996 and revised on 5 August 2008, the engagement of foreign negotiable securities, issuance and trading of derivative products by domestic authorities shall be registered in accordance with the requirements of the foreign exchange management department of the State Council. Exchange income of domestic authorities and domestic individuals may be repatriated or deposited in overseas; the conditions and terms of repatriating or depositing in overseas shall be subject to the requirements of the foreign exchange management department of the State Council in accordance with the conditions of international income and expenditure and the needs of foreign exchange management. Funds of foreign exchange and settlement of exchange for capital projects shall be utilised subject to the approval of relevant competent department and foreign exchange management authorities. Foreign exchange management authorities are entitled to the supervision and examination of the use of funds of foreign exchange and settlement of exchange for capital projects and changes in account.

According to the requirements of the Notice of the State Administration of Foreign Exchange on Several Issues Concerning the Administration of Foreign Exchange of Companies Listed Overseas (《國家外匯管理局關於境外上市外匯管理有關問題的通知》) issued and implemented on 26 December 2014:

(1) A domestic company shall, within 15 working days after completion of the overseas listing, register for overseas listing with the foreign exchange authority in the locality where it has been incorporated, and collect a registration certificate for overseas listing, and use it for overseas listing to open a special foreign exchange account for overseas listing of a domestic company with a domestic bank for funds remittance and transfer under relevant transactions. After a domestic company's overseas listing, where its domestic shareholders plan to increase/decrease the shares they hold in the company in accordance with relevant regulations, the said shareholders shall visit the local foreign exchange authority for overseas shareholding registration within 20 working days before the proposed share increase/decrease, and shall use the registration certificate to open account(s) for increasing/decreasing the shares they hold in the overseas-listed company and conduct relevant transactions.

(2) A domestic company shall open an RMB account for foreign exchange settlement and pending payment (RMB account) with the bank who has opened for it the special account for overseas listing, for the company to deposit the RMB funds it receives from foreign exchange settled under its special account for overseas listing, the repatriated RMB funds raised through overseas listing, and the RMB funds remitted outward for repurchase of overseas shares, and the remaining repatriated funds after repurchase. A domestic shareholder of an overseas listed company shall present the overseas shareholding registration certificate to open a special account for overseas shareholding with a domestic bank for funds remittance and transfer under relevant transactions involved in the increase/decrease or transfer of the shares he/she holds in the company. A domestic company and its domestic shareholders may open corresponding special overseas accounts overseas for the purpose of handling transactions involved in overseas listing.

(3) A domestic company's funds raised through overseas listing may be repatriated or deposited overseas, provided that the use of funds shall be consistent with the relevant terms and conditions set out in its disclosure documents including prospectus or corporate bonds issuance prospectus, announcement to shareholders, and resolution of board of directors or shareholders' general meeting; A domestic company shall, in case of proposed repatriation of the funds raised through offering of other types of securities rather than corporate bonds convertible to shares, remit the funds in its special account for overseas listing (foreign exchange) or unpaid account (RMB).

(4) A domestic company may apply to the opening bank, by presenting its registration certificate for overseas listing, for domestic transfer of or payment with funds under the special account for overseas listing, or for transfer of the funds to its unpaid account. A domestic company shall, in case of domestic transfer of or payment with the funds under the unpaid account, present to the opening bank the document

evidencing the consistency between the use of funds set forth in its disclosure documents for overseas listing and the purpose of repatriation and foreign exchange settlement; if the purpose is inconsistent with the use of funds specified in the disclosure documents or not specified in its disclosure documents, the company shall provide the resolution of its board of directors or shareholders' general meeting on change or clarification of the uses of relevant funds.

(5) A domestic company shall, within 15 working days as of the day when the following changes occur, go to the local foreign exchange authority for alteration registration: change in name, registered address, or major shareholder(s) of the overseas listed company; change in capital including subsequent offering (including over-allotment); change in shareholding structure of overseas listed company upon completion of increase/decrease, transfer or receipt of overseas shares by domestic shareholder; change in the plan on use of proceeds raised through overseas listing and the intended usage originally filed with relevant authorities.

(6) In case that a state-owned shareholder of the domestic company is required to contribute the proceeds from share decrease to the National Social Security Fund in accordance with the Interim Measures for Social Security Funds Raised through Decrease of State-owned Shares (《減持國有股籌集社會保障資金管理暫行辦法》), the domestic company shall handle on behalf of the shareholder this matter, remit and transfer the relevant funds through its special account for overseas listing and unpaid account. The domestic company shall present relevant certifications to the opening bank which its special account for overseas listing and unpaid account are opened with, and apply for direct transfer of the proceeds from the share decrease (or transfer of the proceeds after foreign exchange is settled and transferred to the unpaid account) to a correspondent account which the MoF has opened with a domestic bank.

## HISTORY OF OUR COMPANY

### Introduction

Our business can be traced back to 1958 when our predecessor, an enterprise owned by the whole people* (全民所有制企業) named Luzhou City Tap Water Plant* (瀘州市自來水廠), was established. Luzhou City Tap Water Plant* (瀘州市自來水廠) was subsequently renamed as Luzhou City Tap Water Company* (瀘州市自來水公司) and then as Luzhou City Tap Water Main Company* (瀘州市自來水總公司). On 31 July 2002, our Company, Luzhou Water (Group) Company Limited* (瀘州市水務(集團)有限公司), was established in the PRC with a registered capital of RMB66.28 million based on the reorganisation of Luzhou City Tap Water Main Company* (瀘州市自來水總公司).

On 13 July 2007, Luzhou Water (Group) Company Limited* (瀘州市水務(集團)有限公司) was renamed and re-registered as Luzhou Xinglu Water (Group) Company Limited* (瀘州市興瀘水務(集團)有限公司) with a registered capital of approximately RMB83.50 million.

On 25 December 2015, Luzhou Xinglu Water (Group) Company Limited* (瀘州市興瀘水務(集團)有限公司) was converted into a joint stock company with limited liability, and was re-named as Luzhou Xinglu Water (Group) Co., Ltd.* (瀘州市興瀘水務(集團)股份有限公司) with a registered capital of RMB600 million, and was held by three promoters, namely, Xinglu Investment as to 87.86%, Luzhou Laojiao as to 10.92% and Luzhou Infrastructure as to 1.22%. For further details in relation to our three promoters, please refer to the paragraphs headed "— Information of Existing Shareholders" below. As of the Latest Practicable Date, our registered capital was RMB664.31 million and our Company was held by Xinglu Investment as to 79.35%, Luzhou Laojiao as to 10.92% and Luzhou Infrastructure as to 9.73%.

Our Company is currently primarily engaged in tap water supply and wastewater treatment business. For further details on the principal business of our Group, please refer to the paragraphs headed "Our Business — Overview" in this prospectus.

### Our Business Milestones

Set out below is a list of key milestones in the founding and development of our Group:

| Year | Business Milestones |
|---|---|
| 1958 | • Our water supply business commenced operations in Luzhou City, Sichuan Province, the PRC. |
| 1987 | • We constructed Nanjiao Supply Plant. |
| 1994 | • We constructed Beijiao Supply Plant. |
| 2002 | • Our Company was established as a limited liability company, namely Luzhou Water (Group) Company Limited* (瀘州市水務(集團)有限公司). |
| | • We acquired Qiancao Supply Plant from an Independent Third Party. |

| Year | Business Milestones |
|---|---|
| 2003 | • We started our wastewater treatment business by constructing our first wastewater treatment plant in Yaerdang. |
| | • We acquired approximately 70.4% equity interest in Hejiang Water, which owns our Hejiang Supply Plant, from People's Government of Hejiang County. |
| 2004 | • Beijiao Water, the entity which owns Beijiao Supply Plant, was established and was held by our Company as to approximately 25% at that time. |
| 2009 | • We set up Luzhou Xinglu Water (Group) Co., Ltd. Water Supply and Drainage Quality Monitoring Station* (瀘州市興瀘水務(集團)有限公司供水排水水質監測站) to monitor the water quality of water supply and drainage in Luzhou City. |
| 2010 | • We constructed Erdaoxi Treatment Plant. |
| 2011 | • We acquired Xuyong Treatment Plant from the People's Government of Xuyong County. |
| 2012 | • We acquired additional 96.6% equity interest in Xinglu Wastewater Treatment from Xinglu Investment. |
| | • We acquired Naxi Treatment Plant from Luzhou Naxi District Guoxing Wastewater Treatment Co., Ltd.* (瀘州市納溪區國興污水處理有限公司), a SOE. |
| 2014 | • We started the construction of Nanjiao Supply Plant II, Chengdong Treatment Plant and Chengnan Treatment Plant. |
| | • Xinglu Wastewater Treatment was awarded the certificate for compliance with the GB/T19001-2008/ISO9001:2008 quality management system. |
| | • Upon completion of our acquisition of Hejiang Treatment Plant and Gulin Treatment Plant, our wastewater treatment service covered the entire Luzhou Area, including four counties (Lu County, Hejiang County, Xuyong County and Gulin County) and three districts in Luzhou urban area (Jiangyang District, Longmatan District and Naxi District). |
| | • We implemented the geographic information system (GIS) for collection of the data in relation to the location, operation and maintenance records, and for conducting real-time monitoring of the operational status of and water flow in our pipeline network. |

| Year | Business Milestones |
| --- | --- |
| 2015 | • We started the construction of the Beijiao Supply Plant Phase III.<br>• We converted into a joint stock company with limited liability and were re-named as Luzhou Xinglu Water (Group) Co., Ltd.* (瀘州市興瀘水務(集團)股份有限公司).<br>• Our Company was awarded the certificate for compliance with the GB/T19001-2008/ISO9001:2008 and GB/T50430-2007 quality management systems. |

## MAJOR CHANGES IN SHARE CAPITAL

Since our establishment and up to the Latest Practicable Date, we have undergone the below major changes in our registered capital and paid-up share capital as a result of capital injection:

- On 13 July 2007, upon registration with Luzhou City AIC, the registered capital of our Company was increased from RMB66.28 million to approximately RMB83.50 million. According to a registered capital verification report issued by an independent third party auditor, as of 4 June 2007, 100% of the increased registered capital had been paid up.

- On 11 August 2009, upon registration with Luzhou City AIC, the registered capital of our Company was increased from approximately RMB83.50 million to approximately RMB84.90 million. According to a registered capital verification report issued by an independent third party auditor, as of 14 July 2009, 100% of the increased registered capital had been paid up.

- On 27 December 2012, upon registration with Luzhou City AIC, the registered capital of our Company was increased from approximately RMB84.90 million to approximately RMB184.90 million. According to a registered capital verification report issued by an independent third party auditor, as of 5 December 2012, 100% of the increased registered capital had been paid up.

- On 4 September 2014, upon registration with Luzhou City AIC, the registered capital of our Company was decreased from approximately RMB184.90 million to approximately RMB184.40 million. Please refer to the subsection headed "— Major Acquisition and Disposal — Capital Reduction and Disposal of Non-principal Businesses Related Assets" in this section for further details.

- On 5 January 2015, upon registration with Luzhou City AIC, the registered capital of our Company was increased from RMB184.40 million to RMB278.71 million.

- On 25 December 2015, upon registration with Luzhou City AIC, we were converted from a limited liability company to a joint stock company with the registered capital of RMB600 million. According to a registered capital verification report issued by an Independent Third Party Auditor, as of 17 December 2015, 100% of the increased registered capital had been paid up.

- On 11 May 2016, upon registration with Luzhou City AIC, the registered capital of our Company was increased from RMB600 million to RMB664.31 million. According to a registered capital verification report issued by an Independent Third Party auditor, as of 12 May 2016, 100% of the increase registered capital had been paid up.

## MAJOR ACQUISITION AND DISPOSAL

### Acquisition of Xinglu Wastewater Treatment

With a view to further supplement our wastewater treatment business, on 31 December 2012, we acquired approximately 96.6% equity interest in Xinglu Wastewater Treatment from Xinglu Investment at a consideration of approximately RMB67.2 million, which was determined based on an assets appraisal report issued by an independent valuer and after arm's length negotiation and was fully paid by us by December 2012. Upon the completion of such acquisition, Xinglu Wastewater Treatment was held by our Company and Xinglu Investment as to 98% and 2%, respectively, and Xinglu Wastewater Treatment became one of our non-wholly owned subsidiaries.

### Capital Reduction and Disposal of Non-principal Businesses Related Assets

With a view to focus on our principal business and centralise our management and financial resources, upon approval from Luzhou City SASAC and pursuant to the resolution passed at the Shareholders' meeting 30 June 2014, our Company disposed of our non-principal businesses related assets, i.e. certain long-term equity investments, investment properties, buildings and structures and land use rights, with an aggregate book value of approximately RMB55.07 million as at 30 June 2013, and injected the same into a separate company named Luzhou City Xinglu Assets Management Co., Ltd.* (瀘州市興瀘資產管理有限公司) ("**Xinglu Assets Management**") established by way of company division (分立) from our Company. In connection with the establishment of Xinglu Assets Management, our registered capital was also reduced by RMB0.5 million, which was contributed into Xinglu Assets Management as its registered capital. Upon completion of the establishment of Xinglu Assets Management, Xinglu Assets Management was held by Xinglu Investment and Luzhou Infrastructure as to 98.15% and 1.85%, respectively.

On 25 December 2015, the 1.85% equity interest in Xinglu Assets Management held by Luzhou Infrastructure was transferred to Xinglu Investment. As at the Latest Practicable Date, Xinglu Assets Management was wholly owned by Xinglu Investment.

As confirmed by our PRC legal adviser, Jia Yuan Law Offices, all applicable regulatory approvals have been obtained and the acquisition, the capital reduction and disposal disclosed above have been properly and legally completed and settled.

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

## OUR MAJOR SUBSIDIARIES

### 1. Xinglu Wastewater Treatment

Xinglu Wastewater Treatment is a limited liability company established in the PRC and commenced business on 11 December 2000 with a registered capital of RMB1 million. Subsequently, after three instances of capital increase and as at the Latest Practicable Date, the registered capital of Xinglu Wastewater Treatment was RMB248 million and was held by our Company and Xinglu Investment as to 98% and 2%, respectively. For details of our acquisition of Xinglu Wastewater Treatment, please refer to the paragraph headed "Major Acquisition and Disposal" in this section.

Xinglu Wastewater Treatment is currently mainly engaged in providing wastewater treatment services.

### 2. Beijiao Water

Beijiao Water is a limited liability company established in the PRC and commenced business on 25 March 2004 with a registered capital of approximately RMB16.45 million. Beijiao Water became one of our non-wholly owned subsidiaries after a rectification of shareholding in Beijiao Water in June 2011. For further details, please refer to the subsection headed "— Shareholding in Our Subsidiaries Held by Our Employees" in this section.

As at the Latest Practicable Date, the registered capital of Beijiao Water was approximately RMB43.9 million and was held by our Company as to approximately 86.78%, Luzhou Zhongxu as to approximately 8.30%, Luzhou Bei'er Asset Management Center (Limited Partnership)* (瀘州北貳資產管理中心(有限合夥)) ("**Luzhou Bei'er**") as to approximately 3.04% and Luzhou Beiyi Asset Management Center (Limited Partnership)* (瀘州北壹資產管理中心(有限合夥)) ("**Luzhou Beiyi**") as to approximately 1.88%. As at the Latest Practicable Date, other than their interests in Beijiao Water, Luzhou Beiyi and Luzhou Bei'er were Independent Third Parties to our Company and Luzhou Zhongxu also held equity interest in our other subsidiaries, details of which was disclosed in paragraph headed "— Corporate Structure" below.

Beijiao Water is currently mainly engaged in the business of tap water production.

### 3. Jiangnan Water

Jiangnan Water is a limited liability company established in the PRC on 7 March 2003 with a registered capital of RMB6.52 million. Its registered capital remained unchanged since its establishment and as at the Latest Practicable Date, Jiangnan Water was held as to approximately 44.19% by Luzhou Zhongxu, as to approximately 5.85% in aggregate by 29 PRC individuals, who are our employees, former employees or Independent Third Parties, and as to approximately 49.96% by our Company. Jiangnan Water is currently mainly engaged in the business of tap water production and sales.

After a rectification of shareholding in Jiangnan Water in June 2011, details of which are disclosed in the paragraphs headed "— Shareholding in Our Subsidiaries Held by Our

Employees", and according to an acting in concert agreement dated 30 June 2011 entered into between our Company and Mr. Wang Tianshou (汪天壽), one of the then shareholders of Jiangnan Water that held approximately 9.89% equity interests in Jiangnan Water for himself and on behalf of several then employees, Mr. Wang agreed to vote in shareholders' meetings of Jiangnan Water in the same manners as our Company. From 10 December 2015 to 28 December 2015, Mr. Wang and such then employees on whose behalf Mr. Wang held shares entered into respective equity transfer agreements with Luzhou Zhongxu, pursuant to which Mr. Wang and such then employees agreed to sell and Luzhou Zhongxu agreed to acquire an aggregate of 8.38% equity interests held by Mr. Wang and such then employees in Jiangnan Water, at an aggregate consideration of approximately RMB2.8 million which was fully settled by 4 January 2016. Subsequently, according to an acting in concert agreement dated 3 February 2016 entered into between our Company and Luzhou Zhongxu, which held approximately 44.19% equity interests in Jiangnan Water, Luzhou Zhongxu agreed to exercise its shareholder's rights of Jiangnan Water in the same manners as our Company when no consensus can be reached and therefore Jiangnan Water is regarded as being controlled by our Company and accounted for as a subsidiary of our Company.

**4. Hejiang Water**

Hejiang Water is a limited liability company established in the PRC and commenced business on 26 April 1999 with a registered capital of approximately RMB8.64 million. Its registered capital remained unchanged since its establishment. In October 2003, Hejiang Water became one of our non-wholly owned subsidiaries. Subsequently, Hejiang Water conducted rectification of its shareholding, details of which are disclosed in the paragraph headed "— Shareholding in Our Subsidiaries Held by Our Employees" in this section. As at the Latest Practicable Date, Hejiang Water was held by 48 PRC individuals, who were our employees or Independent Third Parties, as to approximately 9.72% in aggregate, Luzhou Zhongxu as to approximately 4.35%, and our Company as to approximately 85.93%.

Hejiang Water is currently mainly engaged in the business of tap water production and sales.

## SHAREHOLDING IN OUR SUBSIDIARIES HELD BY OUR EMPLOYEES

When we were established as a limited liability company in 2002, we transferred certain net assets to the then employees of our subsidiaries in the form of equity in the relevant subsidiaries, resulting in the number of shareholders of our certain subsidiaries having exceeded the maximum limit of 50 shareholders allowed under the PRC Company Law and as disclosed in the section headed "Regulatory Environment", and the existence of dormant shareholders in our certain subsidiaries.

In 2011, 2014 and 2015, our Group took steps to regulate the shareholding in our certain subsidiaries held by our then employees through the following methods: (1) individual shareholders transferred equity interests held by them to our Company and/or Luzhou Zhongxu by entering into the share transfer agreements; or (2) individual shareholders set up partnerships and transferred equity interests held by them to such partnerships. Details of the number of shareholders and information of dormant shareholders of our certain subsidiaries before and after our efforts are listed out below:

| Subsidiaries | Before the rectification: Number of individual shareholders | Before the rectification: Aggregate shareholding interest (%) | After the rectification[8]: Number of individual shareholders | After the rectification[8]: Aggregate shareholding interest (%) |
|---|---|---|---|---|
| Beijiao Water | 513[1] | 75 | 0 | 0 |
| Nanjiao Water | 359[2] | 100 | 46 | 10.38 |
| Jiangnan Water | 312[3] | 89.84 | 29 | 5.85 |
| Naxi Water | 85[4] | 30.50 | 6 | 1.58 |
| Hejiang Water | 75[5] | 14.74 | 48 | 9.72 |
| Sitong Engineering | 119[6] | 80.04 | 13 | 1.98 |
| Sitong Design | 436[7] | 100 | 21 | 2.96 |

*Notes:*

(1) Before the rectification, there were 22 registered individual shareholders in Beijiao Water, among whom, six shareholders were beneficial owners and 16 shareholders were holding equity interest on behalf of other 507 individuals. After the rectification in June 2011, Beijiao Water became a non-wholly subsidiary of our Company and was held by our Company as to approximately 63.77%.

(2) Before the rectification, there were 13 registered individual shareholders in Nanjiao Water, who were holding equity interest on behalf of other 359 individuals. After the rectification in June 2011, Nanjiao Water was held by our Company as to approximately 43.38%. According to the acting in concert agreement dated 30 June 2011 entered into between our Company and Mr. Wang Tianshou (汪天壽), one of the then shareholders of Nanjiao Water who held approximately 14.34% equity interests in Nanjiao Water for himself and on behalf of several then employees, Mr. Wang agreed to vote in shareholders' meetings of Nanjiao Water in the same manners as our Company. Therefore, Nanjiao Water was regarded as being controlled by our Company and accounted for as a subsidiary of our Company.

(3) Before the rectification, there were 14 registered individual shareholders in Jiangnan Water, who were holding equity interest on behalf of other 312 individuals. After the rectification in June 2011, Jiangnan Water was held by our Company as to approximately 49.05%. According to the acting in concert arrangement, Jiangnan Water was regarded as being controlled by our Company and accounted for as a subsidiary of our Company. For details of the acting in concert arrangement, please refer to the paragraph headed "— Our Major Subsidiaries — 3. Jiangnan Water" in this section.

(4) Before the rectification, there were seven registered individual shareholders in Naxi Water, who were holding equity interest on behalf of other 85 individuals, and our Company held other 69.50% equity interests in Naxi Water. After the rectification in June 2011, Naxi Water was held by our Company as to approximately 62.17%.

(5) Before the rectification, there were four registered individual shareholders in Hejiang Water, who were holding equity interest on behalf of other 75 individuals, and our Company held other 85.26% equity interests in Hejiang Water. After the rectification in June 2011, Hejiang Water was held by our Company as to approximately 85.93%

(6) Before the rectification, there were 10 registered individual shareholders in Sitong Engineering, who were holding equity interest on behalf of other 119 individuals. After the rectification in June 2011, Sitong Engineering became a non-wholly subsidiary of our Company and was held by our Company as to approximately 79.38%.

(7) Before the rectification, there were three registered individual shareholders in Sitong Design, who were holding equity interest on behalf of other 436 individuals. After the rectification in June 2011, Sitong Design became a non-wholly subsidiary of our Company and was held by our Company as to approximately 65.98%.

(8) The number of individual shareholders and their aggregate shareholding interest in this column show the shareholding structure of our seven subsidiaries immediately after the completion of the rectification process in 2011, 2014 and 2015. For further details of the shareholding structure of the seven subsidiaries as at the Latest Practicable Date and upon Listing, please refer to the paragraph headed "— Corporate Structure" in this section.

As confirmed by our PRC legal adviser, Jia Yuan Law Offices, (i) our Group has legally completed the rectification of shareholding by our employees and the measures taken for such regulation are legal; there remains no dispute on such rectification of shareholding by our employees; (ii) our current shareholding in our aforementioned seven subsidiaries were legal and in compliance with the requirements regarding number of shareholders under the relevant laws and regulations, including the PRC Company Law; and (iii) each of our Company and its subsidiaries is a company duly established and validly existing under the relevant PRC laws and regulations.

## INFORMATION OF EXISTING SHAREHOLDERS

As at the Latest Practicable Date, our Company was owned by Xinglu Investment, Luzhou Laojiao and Luzhou Infrastructure as to 79.35%, 10.92% and 9.73%, respectively. Further details regarding our existing Shareholders are set out below:

### 1. Xinglu Investment

Our Company was allocated by the People's Government of Luzhou from Luzhou Planning and Construction Bureau* (瀘州市規劃建設局) to Xinglu Investment, who became our Controlling Shareholder on 17 March 2005. Xinglu Investment is a wholly stated-owned limited liability company established in the PRC on 28 January 2003. It is mainly engaged in management, investment and financing of state-owned assets. As at the Latest Practicable Date, Xinglu Investment was owned by Luzhou City SASAC as to 100% and was our Controlling Shareholder.

### 2. Luzhou Laojiao

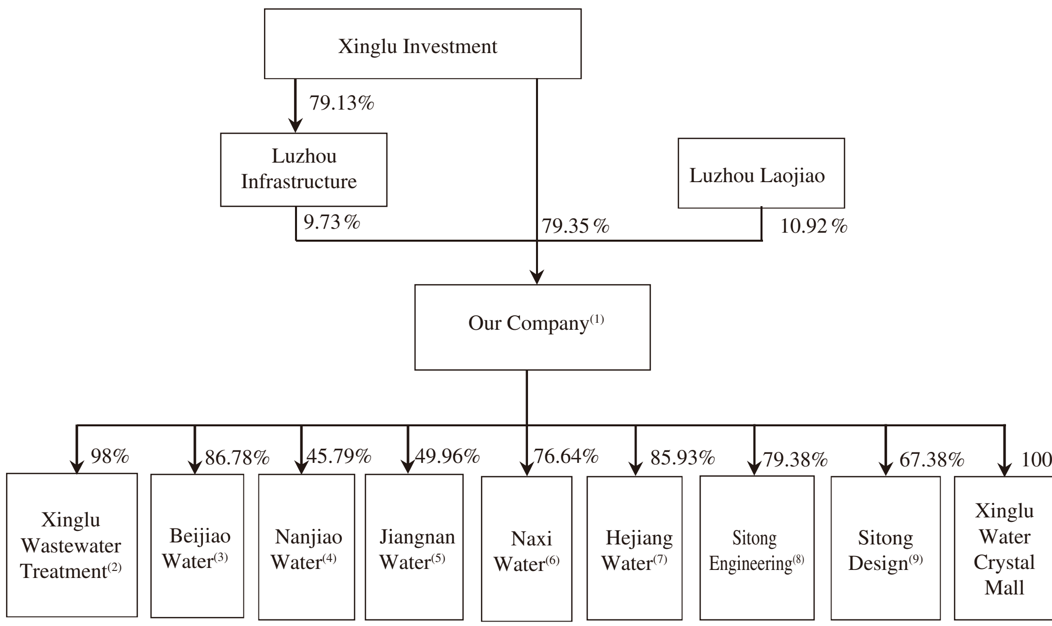
Luzhou Laojiao became one of our Shareholders upon completion of the increase of our registered capital on 5 January 2015. Luzhou Laojiao is a wholly stated-owned limited liability company established in the PRC on 21 December 2000. It is mainly engaged in the rice production and processing and brewing. As at the Latest Practicable Date, Luzhou Laojiao was owned by Luzhou City SASAC as to 100%.

### 3. Luzhou Infrastructure

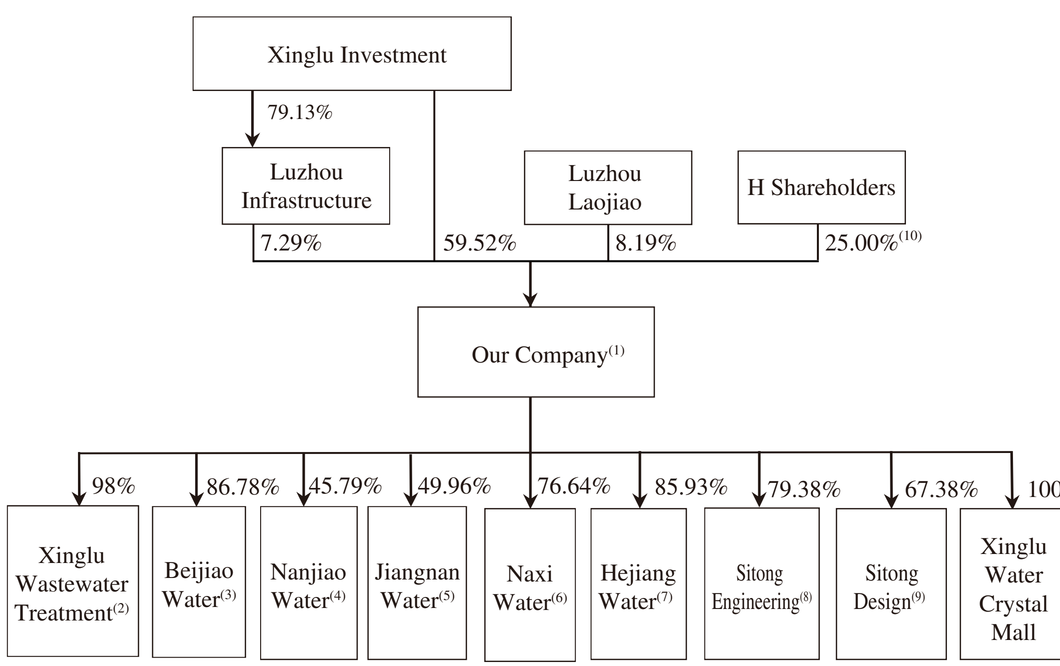
Luzhou Infrastructure became one of our Shareholders upon completion of the increase of our registered capital on 13 July 2007. Luzhou Infrastructure Investment is a limited liability company established in the PRC on 29 May 2001. It is mainly engaged in the management, investment and financing of state-owned assets and infrastructure construction. As at the Latest Practicable Date, Luzhou Infrastructure was held by CDB Development Fund Co., Ltd.* (國開發展基金有限公司) as to 20.86%, Xinglu Investment as to 79.13% and Luzhou Xinglu Jutai Real Estate Co., Ltd.* (瀘州興瀘居泰房地產有限公司), a wholly-owned subsidiary of Xinglu Investment, as to 0.01%, respectively.

## CORPORATE STRUCTURE

Immediately prior to the Global Offering, the equity holding structure of our Group is set out below:




The equity holding structure of our Group immediately following completion the Global offering (assuming that the Over-allotment Option is not exercised) is set out below:



*Notes:*

(1) As at the Latest Practicable Date, there were two branches of our Company, namely Luzhou Xinglu Water (Group) Co., Ltd. Lu County Branch* (瀘州市興瀘水務(集團)股份有限公司瀘縣分公司) and Luzhou Xinglu Water (Group) Co., Ltd. Water Supply and Drainage Quality Monitoring Station* (瀘州市興瀘水務(集團)股份有限公司供水排水水質監測站).

(2) The remaining 2% equity interest in Xinglu Wastewater Treatment was held by Xinglu Investment as at the Latest Practicable Date.

(3) The remaining approximately 13.22% equity interest in Beijiao Water was held by Luzhou Beiyi as to approximately 1.88%, Luzhou Bei'er as to approximately 3.04% and Luzhou Zhongxu as to approximately 8.30% as at the Latest Practicable Date.

(4) The remaining approximately 54.21% equity interest in Nanjiao Water was held by Luzhou Zhongxu as to approximately 43.83% and 46 PRC individuals, who are our employees or Independent Third Parties, as to approximately 10.38% in aggregate as at the Latest Practicable Date. According to an acting in concert agreement dated 3 February 2016 entered into between our Company and Luzhou Zhongxu, which held approximately 43.83% equity interests in Nanjiao Water, Luzhou Zhongxu agreed to exercise its shareholder's rights of Nanjiao Water in the same manners as our Company when no consensus can be reached and therefore Nanjiao Water was regarded as being controlled by our Company and accounted for as a subsidiary of our Company as at the Latest Practicable Date.

(5) The remaining approximately 50.04% equity interest in Jiangnan Water was held by Luzhou Zhongxu as to approximately 44.19% and 29 PRC individuals, who are our employees or Independent Third Parties, as to approximately 5.85% in aggregate as at the Latest Practicable Date. According to an acting in concert agreement dated 3 February 2016 entered into between our Company and Luzhou Zhongxu, which held 44.19% equity interests in Jiangnan Water, Luzhou Zhongxu agreed to exercise its shareholder's rights of Jiangnan Water in the same manners as our Company when no consensus can be reached and therefore Jiangnan Water was regarded as being controlled by our Company and accounted for as a subsidiary of our Company.

(6) The remaining approximately 23.36% equity interest in Naxi Water was held by Luzhou Zhongxu as to approximately 21.78% and 6 PRC individuals, who are our employees or Independent Third Parties, as to approximately 1.58% in aggregate as at the Latest Practicable Date.

(7) The remaining approximately 14.07% equity interest in Hejiang Water was held by Luzhou Zhongxu as to approximately 4.35% and 48 PRC individuals, who are our employees or Independent Third Parties, as to approximately 9.72% in aggregate as at the Latest Practicable Date.

(8) The remaining approximately 20.62% equity interest in Sitong Engineering was held by Luzhou Zhongxu as to approximately 18.64% and 13 PRC individuals, who are our employees or Independent Third Parties, as to approximately 1.98% in aggregate as at the Latest Practicable Date.

(9) The remaining approximately 32.62% equity interest in Sitong Design was held by Luzhou Zhongxu as to approximately 29.66% and 21 PRC individuals, who are our employees or Independent Third Parties, as to approximately 2.96% in aggregate as at the Latest Practicable Date.

(10) The shares held by H Shareholders include the H Shares converted from Domestic Shares and offered by our Selling Shareholders in accordance with the PRC laws relating to state-owned shares reduction. For details, please refer to the section headed "Share Capital" in this prospectus.

## OVERVIEW

We are an integrated municipal water service provider in Sichuan Province ranked second in terms of tap water sales volume with a market share of approximately 2.8% and fourth in terms of number of tap water supply and wastewater treatment plants in operation in Sichuan Province in 2015, according to the Frost & Sullivan Report. Our business segments during the Track Record Period included tap water supply and wastewater treatment. As of 31 October 2016, we operated six tap water supply plants with an aggregate designed capacity of approximately 280,500 tons per day and nine wastewater treatment plants with an aggregate designed capacity of approximately 261,000 tons per day.

We have built a dominant presence in Luzhou Area, where all our operations were located during the Track Record Period. Our predecessor, Luzhou City Water Company, was formed in 1958 to provide tap water supply services in Luzhou urban area and our Company was formed in 2002 through a corporate structure reform. By the end of 2015, Luzhou Area had a population of 4.29 million and comprises 12,236.2 sq.km. It is located at the converging point of Yangtze River and Tuojiang River, and commands a unique geographic and strategic importance in the natural water ecosystem in China. As of 31 December 2015, we were the largest tap water supplier in terms of supply capacity in Luzhou Area with a market share of approximately 83.0%, according to the Frost & Sullivan Report. We served approximately 222,000 residential end user accounts and 38,000 non-residential end user accounts in Luzhou Area as of 31 October 2016 through our proprietary tap water pipeline network. We entered into the wastewater treatment business in Luzhou Area in 2003 after constructing our first wastewater treatment plant. As of 31 December 2015, we were the sole wastewater treatment service provider at the county and urban district level of Luzhou Area, according to the Frost & Sullivan Report.

Over the years, we systematically ramped up our operational scale through a combination of organic growth and successful strategic acquisitions in Luzhou Area. Among the six tap water supply plants we operate, two were constructed by our predecessor and four were acquired from local governments or SOEs. Among the nine wastewater treatment plants we currently operate, four were built by us and five were acquired from local governments or SOEs. We were able to integrate the plants we acquired into our service network by replicating our operational model and management infrastructure in these plants. During the Track Record Period, we also undertook construction and upgrade service projects for water supply and wastewater treatment plants and related facilities to increase our processing capacities and expand our customer reach.

Municipal water services are critical to public interest and social welfare. We have been in cooperation with the local governments to develop new tap water supply pipeline network and upgrade existing pipelines in support of the local governments' development and urbanisation plans. We believe we have developed valuable operational experience and market credentials to further expand our business in geographic areas outside Luzhou Area.

We have been able to serve our social responsibility as a municipal water service provider while generating solid growth in revenue and profit after tax. We experienced steady growth in our business during the Track Record Period. We generated revenue of RMB409.8 million, RMB629.0 million, RMB911.9 million and RMB721.0 million in 2013, 2014 and 2015 and the ten months ended 31 October 2016, respectively, representing a CAGR of 49.2% from 2013 to 2015. Our profit after tax was RMB88.0 million, RMB115.5 million, RMB144.4 million and RMB120.2 million in 2013, 2014 and 2015 and the ten months ended 31 October 2016, respectively, representing a CAGR of 28.1% from 2013 to 2015.

## OUR BUSINESS MODELS

We provide integrated municipal water-related public utility services, including tap water supply and wastewater treatment in Luzhou Area. We adopt the BOO and TOO project models in our business, and entered into concession agreements with local governments which typically have terms of 30 years. Key features of our project models are as follows:

| Project Models | Key Features |
|---|---|
| BOO | • We finance and construct our own facilities.<br>• The local government grants us the right to operate the facilities and we charge our customers for tap water supply or wastewater treatment services during the concession period.<br>• We retain the infrastructure we invested and secure a new concession right at the end of the concession period. |
| TOO | • We acquire the concession right and the ownership of the relevant facilities for agreed consideration.<br>• The local government grants us the right to operate the facilities and we charge our customers for tap water supply or wastewater treatment services during the concession period.<br>• We retain the infrastructure we acquired and secure a new concession right at the end of the concession period. |

*Note:*

We are not under any obligation pursuant to the relevant concession agreements to transfer our service-related facilities to the relevant government authorities at the end of concession periods, except for the Hejiang Supply Plant and Hejiang Treatment Plant, for which we agreed to transfer to the Hejiang County Government for a consideration, if we fail to secure an extension upon the expiration of the concession period. For more details, please refer to the section "— Project and Operation Management — Tender and Acquisition Procedures — Concession Rights to Conduct Tap Water Supply Operations" and "— Project and Operation Management — Tender and Acquisition Procedures — Concession Rights to conduct Wastewater Treatment Operations".

**Tap water supply business:** we operate tap water supply plants pursuant to concession arrangements with the local governments under BOO or TOO models and we also provide pipeline construction and installation services to new end users. In addition, we recognise revenue from the construction and upgrade of our tap water supply infrastructure in accordance with the relevant accounting standards. Revenue generated from tap water supply segment accounted for 75.7%, 56.1%, 58.2% and 61.7% of our total revenue in 2013, 2014 and 2015 and the ten months ended 31 October 2016, respectively.

**Wastewater treatment business:** we operate wastewater treatment plants pursuant to concession arrangements with the local governments under BOO or TOO models. We also recognise revenue from the construction and upgrade of our wastewater treatment infrastructure in accordance with the relevant accounting standards. Revenue generated from wastewater treatment segment accounted for 24.3%, 43.9%, 41.8% and 38.3% of our total revenue in 2013, 2014 and 2015 and the ten months ended 31 October 2016, respectively.

The table below sets forth a breakdown of our revenue by segments during the Track Record Period:

| | Year ended 31 December | | | | | | Ten months ended 31 October | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 2013 | | 2014 | | 2015 | | 2015 | | 2016 | |
| | Revenue | Percentage of total revenue | Revenue | Percentage of total revenue | Revenue | Percentage of total revenue | Revenue | Percentage of total revenue | Revenue | Percentage of total revenue |
| | RMB'000 | % | RMB'000 | % | RMB'000 | % | RMB'000 (unaudited) | % | RMB'000 | % |
| **Tap water supply business** | | | | | | | | | | |
| ***Operational projects*** | | | | | | | | | | |
| Tap water | 132,299 | 32.3 | 148,185 | 23.5 | 163,348 | 17.9 | 134,479 | 18.0 | 146,105 | 20.3 |
| Installation and maintenance services[(1)] | 85,473 | 20.9 | 108,757 | 17.3 | 131,760 | 14.4 | 106,651 | 14.3 | 113,849 | 15.8 |
| Upgrade services of tap water supply infrastructure[(2)] | 83,107 | 20.3 | 65,857 | 10.5 | 129,896 | 14.2 | 106,624 | 14.3 | 86,435 | 12.0 |
| ***Pre-operational projects*** | | | | | | | | | | |
| Construction services of tap water supply infrastructure[(2)] | 9,208 | 2.2 | 30,152 | 4.8 | 106,552 | 11.7 | 83,741 | 11.2 | 97,912 | 13.6 |
| **Subtotal** | 310,087 | 75.7 | 352,951 | 56.1 | 531,556 | 58.2 | 431,495 | 57.8 | 444,301 | 61.7 |
| **Wastewater treatment business** | | | | | | | | | | |
| ***Operational projects*** | | | | | | | | | | |
| Operating service | 77,647 | 18.9 | 93,565 | 14.9 | 109,002 | 12.0 | 90,186 | 12.1 | 101,892 | 14.1 |
| Interest income on receivables under service concession arrangements[(3)] | 13,451 | 3.3 | 15,747 | 2.5 | 18,959 | 2.1 | 15,546 | 2.2 | 21,517 | 3.0 |
| Upgrade services of wastewater treatment infrastructure[(2)] | 2,512 | 0.6 | 3,374 | 0.5 | 5,502 | 0.6 | – | – | 477 | 0.1 |
| ***Pre-operational projects*** | | | | | | | | | | |
| Construction services of wastewater treatment infrastructure[(2)] | 6,101 | 1.5 | 163,346 | 26.0 | 246,877 | 27.1 | 208,386 | 27.9 | 152,780 | 21.1 |
| **Subtotal** | 99,711 | 24.3 | 276,032 | 43.9 | 380,340 | 41.8 | 314,118 | 42.2 | 276,666 | 38.3 |
| **Total** | 409,798 | 100.0 | 628,983 | 100.0 | 911,896 | 100.0 | 745,613 | 100.0 | 720,967 | 100.0 |

*Notes:*

(1) We undertook pipeline construction projects based on end user needs or government planning. We generated revenue from such construction projects by charging new residential and non-residential end users an installation fee, which was calculated based on standards set in relevant regulations of local government. Such installation fee was recognised as revenue based on percentage of completion. For more details, please refer to "Financial Information — Description of Selected Line Items in Consolidated Statements of Profit or Loss and Other Comprehensive Income — Revenue — Tap water supply — Installation and maintenance services".

(2) We construct and upgrade our new and existing tap water supply and wastewater treatment infrastructure for our pre-operational and operational projects, respectively, to extend the life or production capacity of the infrastructure under service concession arrangements. Our construction and upgrade projects include installation of new facilities to existing infrastructure or replacement of certain equipments and machinery that are currently in use. Accordingly, we recognised revenue in connection with the construction and upgrade services of our tap water supply and wastewater treatment infrastructure of our operational and pre-operational projects before such infrastructure are put into operation pursuant to IFRIC 12, based on the nature of the corresponding concession arrangement with the local governments as grantors of concession rights. For more details, please refer to "Financial Information — Critical Accounting Policies — 1. Service Concession Arrangements".

Our upgrade services of tap water supply infrastructure include tap water supply plant upgrade and pipeline upgrade and extension projects. Our upgrade services of wastewater treatment infrastructure include upgrade projects of infrastructures at existing wastewater treatment plants.

(3) We recognised the portion of consideration given to the grantors representing the extent that we have a contractual right to receive cash from the grantors as receivables under service concession arrangements which are carried at amortised costs and we recognised interest income on receivables under service concession arrangements using the effective interest method throughout the concession period based on our outstanding receivables under service concession arrangements balance in accordance with IFRIC 12. The effective interest rate is determined by an independent valuer, Savills, which fell within the range from 3.51% to 6.00% per annum during the Track Record Period. For more details on the relevant accounting policies, please refer to the section "Financial Information — Critical Accounting Policies — 1. Service Concession Arrangements — 1.2 Consideration given to the Grantors".

## OUR COMPETITIVE STRENGTHS

### An integrated municipal water service provider in Sichuan Province with a dominant presence in Luzhou Area and substantial organic growth potential

We are an integrated municipal water service provider in Sichuan Province. In 2015, we ranked second in terms of tap water sales volume and fourth in terms of number of tap water supply and wastewater treatment plants in operation in Sichuan Province, according to the Frost & Sullivan Report.

We have built a dominant presence in Luzhou Area through 13 years of operation of municipal water services since our Company was incorporated in 2002. As a converging point of Yangtze River and Tuojiang River, Luzhou Area commands unique geographic and strategic importance in the natural water ecosystem in China. Luzhou Area has abundant natural water resources and wastewater treatment is critical to maintaining water quality of the two rivers that affect a large population of China. As a long-established SOE with a dominant presence in Luzhou Area, we operate municipal water service businesses that serve critical public interests. We have secured from the relevant local governments the exclusive concession rights to operate tap water supply and wastewater treatment services covering most of Luzhou Area. One of our long-term operational goals is the full integration of municipal water services for the entire Luzhou Area (全域供水), which we believe will further increase operational efficiency and service quality. Towards that end, we have been in collaboration with local governments to systematically construct and extend the tap water supply pipeline network in Luzhou Area. We also collaborate closely with local governments in Luzhou Area to develop urban water supply pipeline network in support of their overall urbanisation plans. While diligently serving public interests, we are able to proactively respond to market demand and generate solid returns for our shareholders. We generated profit after tax of RMB88.0 million, RMB115.5 million, RMB144.4 million and RMB120.2 million in 2013, 2014 and 2015 and the ten months ended 31 October 2016, respectively, representing a CAGR of 28.1% from 2013 to 2015. We believe our dominant presence and operational track record generated significant recognition for us in Luzhou Area and raised our brand awareness in other parts of Sichuan Province. We believe we are well positioned to benefit from the growth in demand for tap water supply and wastewater treatment in Southwestern China.

**Strong support from municipal governments and major SOE shareholders**

Municipal water services are closely related to public interest and social welfare. We have received strong policy support from local governments and strategic support from our shareholders, which are all major SOEs in Luzhou Area with significant management resources and public goodwill.

In recent years, the PRC government has promulgated a series of policies to support and stimulate the growth of municipal water related industries. According to the Outline of the Twelfth Five-year Plan on Economic and Social Development (《國民經濟和社會發展十二五規劃綱要》), the environmental protection industry was listed as one of the strategic emerging industries. In April 2015, the State Council promulgated the Action Plan for Water Pollution Prevention and Control (水污染防治行動計劃), which sets forth general principles and detailed plans for water pollution prevention and wastewater treatment in China. According to the Frost & Sullivan Report, such plan is expected to lead to significant government investments and initiatives in municipal water supply and wastewater treatment businesses. We believe we will also benefit from the economic growth of Luzhou Area and the further development of the Southwestern China. For instance, the PRC government has recently proposed the establishment of the Yangtze River Economic Zone and Chengdu-Chongqing Economic Zone, which we believe will benefit the development of these areas. In February 2015, NDRC announced the Tentative Comprehensive National Plan for New Urbanisation (國家新型城鎮化綜合試點方案), which designated 62 cities or counties as experimental sites for the implementation of a series of urbanisation policies. Luzhou City is one of the two designated cities in Sichuan Province. We believe these policies will bring new economic growth opportunities to Luzhou Area, which will in turn stimulate demand for municipal water services.

We have built long-term relationship with the local governments. As a long-established municipal water service provider with a dominant presence in Luzhou Area, our operations are closely related to the local public interests and social welfare and have been supported by the local governments. The relevant local governments have granted us exclusive concession rights to conduct both tap water supply and wastewater treatment operations. In addition, the concession agreements stipulate that we have priority to renew such exclusive concession rights upon expiration. The relevant local governments have also granted us various subsidies in relation to our operations. We are entitled to a preferential 15% EIT rate as a company located in western China that engages primarily in encouraged business activities and a 70% VAT refund related to wastewater treatment income in Luzhou Area for our wastewater treatment operations pursuant to the applicable PRC laws and policies. According to Guidance on Accelerating the Establishment of the Tiered Water Price Structure of Urban Residents (關於加快建立完善城鎮居民用水階梯價格制度的指導意見) promulgated by the NDRC on 31 December 2013 and the Notice of Establishment of the Tiered Water Price Structure of Urban Residents (關於建立城區居民用水階梯價格制度的通知) promulgated by the Luzhou DRC in April 2016, a tiered price structure based on usage volume for tap water supply services was implemented in the Luzhou urban area in May 2016, which we expect would increase the revenue and profit margin of our tap water supply business.

We also receive valuable strategic consultancy and support from our shareholders. Our Controlling Shareholder, Xinglu Investment, is a major financing and investment platform of the Luzhou city government through which the Luzhou city government implements its urbanisation and development plans, including infrastructure improvement, public utility construction and development of fundamental and high-tech industries. Xinglu Investment's investment and operational experience in public utility businesses is valuable to our operations. Xinglu Investment provides us with on-going management and technology advice and appraisals to help us optimise our operational efficiency. Xinglu Investment has been actively supporting our efforts to obtain new government projects, subsidies and policy support. Our other major shareholder, Luzhou Laojiao, is the controlling shareholder of a public listed SOE with a nationally renowned brand name as of 30 June 2016. We believe Luzhou Laojiao's shareholding in our Company also enhances the awareness of our Group.

**Uniquely positioned to capitalise on the accelerated growth of municipal water service industries in suburb and rural areas**

Municipal water services have gained increasing importance and demand in recent years in China as public awareness and concerns of environmental issues grow. In particular, according to the Frost & Sullivan Report, the necessity to cultivate and develop water environment related businesses is compounded by the dire shortage of drinkable water sources in China. We believe we are uniquely positioned to benefit from the initiatives proposed by the PRC government to encourage water supply to counties and rural areas, which increase demand for our services and present growth opportunities for us.

In particular, New-type Urbanization Planning (2014–2020) (國家新型城鎮化規劃(2014－2020年)) sets the integration of the public service sectors of the urban and rural areas (城鄉供水一體化) as one of the major goals for new urbanisation in China. Among those public service sectors, the integration of urban and rural water supply is considered as the crucial phase in the development of rural area and lower-tier cities and counties. In particular, the Sichuan Province government promulgated the Sichuan Rural and County Water Supply Regulations (四川省村鎮供水條例) in 2013, which was specifically targeted at promoting and regulating tap water supply to counties and rural areas. In February 2016, the MoF and the SAT jointly promulgated the Notice on Continuous Implementation of Tax Subsidy (關於繼續實行農村飲水安全工程建設運營稅收優惠政策的通知), which provide guidance for broad government tax incentives for construction projects related to water supply to counties and rural areas.

Our dominant presence in Luzhou Area makes us uniquely positioned to benefit from the government's initiatives to integrate urban and rural water supply. We have accumulated valuable operational experience and technical know-how to resolve challenges presented in rural area water supply operations and make such operations economically viable. For example, rural end users for tap water are usually dispersed in large areas with diverse topology, which requires special consideration to be made in pipeline network design and additional cost for pipeline maintenance. In addition, rural end users might have different requirement for tap water quality based on their usage. Since 2014, we have entered into strategic cooperation agreements with Lu County government, Longmatan District government, Jiangyang District government and Hejiang County government to implement the integrated urban and rural water supply. As of the Latest Practicable Date, tap water supply to rural areas in Lu County and Longmatan District were already in operation. Such operations serve critical public interest at the relevant areas, by resolving the long-standing safety concerns for drinking water as well as meeting industrial or agricultural demand for a steady water supply. Constructions and renovations for water supply operations to rural areas in Jiangyang District and Hejiang County were under way as of the Latest Practicable Date. In addition, we were invited by a number of local governments outside Luzhou Area, who are responsible for rural areas, to explore municipal water-related business opportunities in their jurisdictions, including constructing new tap water supply and/or wastewater treatment plants, forming joint companies with local governments to conduct municipal water businesses or assisting local government to renovate and expand existing wastewater treatment plants. We plan to capture such business opportunities by leveraging our operational experience and technical know-how in order to expand our geographic reach and diversify our revenue sources.

**Proven track record of successful growth and operations**

We have built a track record of successfully combining organic growth with strategic acquisition in Luzhou Area, and systematically ramping up our operational scale. We believe our experience of successful acquisitions and integration and our replicable operational model will facilitate our future expansion into other geographic areas.

We started our business as a municipal tap water supplier in Luzhou Area. Among the six tap water supply plants we operate, two were constructed by our predecessor and four were acquired from local governments in an effort to consolidate the tap water supply operations in Luzhou Area. Since the formation of our Company through a corporate structure reform in 2002, we continued to systematically expand our processing capacity and customer base of tap water supply services by acquiring or constructing new tap water supply plants and renovating or upgrading existing plants. Upon acquisition, we revamped the tap water supply plants by implementing many concerted measures, such as restructuring of management team, capital injection and redesign of quality control and water distribution systems. In addition to tap water supply plants, we also acquired several stand-alone water supply facilities such as water pump stations and certain water supply pipelines and integrated these facilities into our tap water supply network. These measures enabled us to satisfy growing demands for tap water in Luzhou Area while enhancing the quality of our supply of tap water.

We started our wastewater treatment business in 2003 after constructing our first treatment plant in Jiangyang District. From 2009 to 2014, in an effort to quickly expand our wastewater treatment business, we built another wastewater treatment plant in Longmatan District and acquired five other local stand-alone wastewater treatment plants from local governments and integrated them into our wastewater treatment service network in Luzhou Area. We were able to replicate our operational experience to our acquired plants and as a result improve their operational efficiency.

We continue to update our existing procedures and systems to reflect valuable experience we accumulated in our operations. We conduct regular safety trainings and emergency rehearsals at our plants and place safety as a key factor in our employee appraisal system.

As a result, we have won various awards during the Track Record Period. In particular, in the national appraisal of energy conservation and discharge reduction for urban and suburb wastewater treatment plants, all five of our participating plants won national-level awards.

**Experienced and stable management team with rich management experience and in-depth industry knowledge**

Core members of our senior management team have been leading our operations of municipal water services since the formation of our Company and have rich management experience and in-depth industry knowledge. Many members of our senior management team have over 10 years of experience in municipal water industries. Our senior management team has expertise in the municipal water industries and ability to work with the key players in the Sichuan municipal water industries. Under their leadership, we have grown into an integrated municipal water services provider in Sichuan Province. Our Chairman, Mr. Zhang Qi (張歧), has served at our predecessor and our Company since 1992. Mr. Zhang Qi has in-depth local knowledge as well as management expertise, and has orchestrated the significant growth of our Company since he became our general manager in 2002. Mr. Zhang Qi led the development of our internal policies and quality control procedures, as well as overall business development strategies under the macroeconomic environment. Our vice general manager, Mr. Wang Junhua, has close to 30 years of experience in the water supply industry, and is responsible for tap water supply operations and management of project construction.

We are committed to employee trainings to maintain our operational standard and efficiency. Through such commitment, we support the development of our employees to build up their professional knowledge and achieve professional qualifications. Such experienced work force also plays an active role in engineering related positions and management positions.

## OUR STRATEGIES

**Continue to grow our operations and consolidate our dominant position in Luzhou Area**

Our next stage of growth in Luzhou Area will focus on two aspects, namely, the integration of municipal water services for the entire Luzhou Area and the integration of urban and rural water supply. Toward that end, we will continue to collaborate with the relevant local governments which are promoting related initiatives.

To meet fast growing demand, we are currently constructing several new tap water supply and wastewater plants and expanding processing capacity of certain existing plants. We plan to use around 30% of our proceeds from the Global Offering as funds for constructing new tap water supply and wastewater treatment facilities such as the upgrade project of Yaerdang Treatment Plant and construction of Huangxi Supply Plant with a designed supply capacity of 95,000 tons per day. We are also exploring opportunities to provide wastewater treatment services to several industrial parks in Luzhou Area, as treatment tariff for industrial wastewater is usually higher. We commenced research on industrial wastewater treatment in Luzhou in 2015 and prepared a comprehensive research report for such treatment. We expect demand for tap water supply to continue to increase for the foreseeable future as a result of economic growth in Luzhou Area, which in turn will generate a demand for us to build new plants and renovate existing plants and further consolidate our leading position in the Luzhou Area.

**Expand into other geographic areas by leveraging our experience and market leader position in Luzhou Area**

We believe we can leverage our operational experience and dominant market position in Luzhou Area to expand into other geographic areas. We plan to continue to use a combination of organic growth and strategic acquisitions for our expansion. Although we did not identify any specific target companies for acquisition as of the Latest Practicable Date, we plan to use around 30% of our proceeds from the Global Offering as funds for future acquisitions. We also intend to use a portion of the net proceeds from the Global Offering on the acquisition and construction of new water supply and wastewater treatment plants, water environmental protection facilities and sludge disposal facilities. For more details, please refer to the section "Future Plans and Use of Proceeds".

As a first step of our expansion, we plan to explore opportunities in selected cities and counties in Sichuan Province. We are also studying the feasibility of expanding into selected areas with geographical proximity and similar geographical environment to Luzhou Area in Guizhou Province.

**Diversify our operations and explore business opportunities in related industries**

According to the Frost & Sullivan Report, environment protection will continue to be a focal point in the PRC government's policy making, which will likely result in more business opportunities in the related industries. We plan to rely on our expertise in municipal water service businesses and expand our operations to other environmental protection related industries, such as sludge disposal, water environment improvement and garbage incineration. We will select industries in which we can transfer our existing operational model and create synergy with our existing businesses. For example, we have conducted researches on sludge disposal operations and wastewater treatment techniques in collaboration with various research institutions.

In exploring new business opportunities in environment protection related industries, we will continue to consult with our Controlling Shareholder and benefit from its industry experience and reputation.

### Seek strategic alliance with selected SOEs

We plan to actively seek strategic alliance with selected SOEs that have financial and technology resources to expand our business, as we believe our similar status as a SOE will facilitate such alliance. We believe cooperation with other SOEs with similar organisational structure and access to resources will enhance the efficiency and chance of success of such alliance. For example, in 2015, we entered into a framework strategic cooperation agreement with a large scale SOE for in-depth cooperation in various areas such as rural wastewater treatment, operation management of wastewater plants and technology renovation. The first project to be undertaken pursuant to this cooperation agreement is the upgrade project of Yaerdang Treatment Plant Upgrade, which as planned would increase the treatment capacity from 50,000 tons per day to 80,000 tons per day and also improve the treatment standard from grade B to grade A. We estimated the total investment to be approximately RMB146.8 million, of which we plan to fund with a combination of bank loans and net proceeds from the Global Offering. We plan to use RMB20.0 million of our proceed from the Global Offering as part of the funding for this upgrade project. We have completed the project feasibility report for this project and are currently preparing the public bidding process to select construction contractors. Other preparation works related to the project are also currently underway. We estimate the construction would start in March 2017 and be completed in December 2017 and we expect the majority of the estimated investment amount would be incurred this time period. We will continue to seek such opportunities to team up with qualified SOEs in the future.

## OUR TAP WATER SUPPLY SERVICES

### Overview

We are a dominant tap water supply service provider in Luzhou Area. We were the largest tap water supplier in terms of supply capacity in Luzhou Area, with a market share of approximately 83.0% as of 31 December 2015, according to the Frost & Sullivan Report. We currently operate six tap water supply plants, including Beijiao Supply Plant that contains three projects of Phase I, Phase II and Phase III, through which we produce and supply tap water to residential and non-residential end users in Luzhou Area. Among the six tap water supply plants we operate, two were constructed by our predecessor and four were acquired from local governments or SOEs. We charge different retail prices for residential and non-residential end users pursuant to the relevant rules and regulations. Our total design supply capacity was 280,500 tons per day as of 31 October 2016. We served approximately 222,000 residential end user accounts and approximately 38,000 non-residential end user accounts in Luzhou Area as of 31 October 2016. The tap water we distribute to end users has to meet the applicable quality standards, including the National Drinking Water Standards (GB5749-2006) (國家生活飲用水衛生標準). As of the Latest Practicable Date, of the water supply project we constructed during the Track Record Period, we completed construction of Beijiao Supply Plant Phase III in May 2016 and is in the process of applying for relevant license, we are preparing for operation at Nanjiao Supply Plant II and we are constructing Qiancao Supply Plant II.

The table below sets forth a summary of our tap water supply plants in operations as of 31 October 2016:

| Plant name | Nanjiao Supply Plant | Beijiao Supply Plant | Hejiang Supply Plant | Lantian Supply Plant | Qiancao Supply Plant | Guanshan Supply Plant |
|---|---|---|---|---|---|---|
| Project type | BOO | BOO | TOO | TOO | TOO | TOO |
| Entity name | Nanjiao Water | Beijiao Water | Hejiang Water | Jiangnan Water | Xinglu Water | Naxi Water |
| Designated area | Luzhou urban area | Luzhou urban area and Lu County(1) | Hejiang County | Luzhou urban area | Luzhou urban area | Luzhou urban area |
| Time of acquisition/ completion of construction | 1987(2) | (i) 1994 (Phase I)(2); (ii) 2008 (Phase II); (iii) May 2016 (Phase III) | September 2003(3) | August 1999(4) | November 2002(5) | November 2000(6) |
| Occurrence of Triggering Events during the Track Record Period(7) | 4, 5, 7 | 4, 5, 7 | 4, 5, 7 | 4, 5, 7 | 4, 5, 7 | 4, 5, 7 |
| Triggering Events may be occurred after Track Record Period(7) | 4, 5 | 4, 5 | 4, 5 | 4, 5 | 4, 5 | 4, 5 |
| Date of the current concession agreement | 28 June 2005 | 28 June 2005 | 4 April 2016 | 28 June 2005 | 28 June 2005 | 28 June 2005 |
| Concession term (years) | 30 | 30 | 30 | 30 | 30 | 30 |
| Start of the concession period | June 2005 | June 2005 | September 2003 | June 2005 | June 2005 | June 2005 |
| End of concession period | June 2035 | June 2035 | September 2033 | June 2035 | June 2035 | June 2035 |
| Designed capacity (ton'000/day) | 62.5 | 145.0(8) | 30.0 | 8.0 | 29.0 | 6.0 |

*Notes:*

(1) We provide tap water supply services to Lu County through Beijiao Supply Plant. For more detail, please refer to "— Project and Operation Management — Tender and Acquisition Procedures — Concession Rights to Conduct Tap Water Supply Operations — Concession agreement in relation to our tap water supply operations in Lu County".

(2) Constructed by our predecessor.

(3) Acquired from Hejiang County Government* (合江縣人民政府) for a consideration of RMB3.7 million in September 2003.

(4) Transferred to us by Lantian Government* (藍田鎮人民政府) for nil consideration in August 1999.

(5) Transferred to us by Sichuan Changjiang Engineering and Machinery Group* (四川長江工程機械集團) for nil considerations in November 2002.

(6) Transferred to us by Luzhou Municipal People's Government* (瀘州市人民政府) for nil consideration in November 2000.

(7) For the details of the triggering events and its associated accounting treatment, please refer to section headed "Financial Information — Accounting Treatment of Our Service Concession Arrangements — Summary of accounting treatment for our BOO and TOO Projects" of this Prospectus.

(8) The designed capacity of Beijiao Supply Plant increased from 100,000 tons per day to 145,000 tons per day after completion of construction of Beijiao Supply Plant Phase III in May 2016 and we are in the process of applying for relevant license for the project.

The table below sets forth a summary of the actual supply volume and average utilisation rate of our tap water supply plants for the indicated periods:

| | Year ended 31 December | | | | | | | | | Ten months ended 31 October | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2013 | | | 2014 | | | 2015 | | | 2016 | | |
| | Supply volume | Designed capacity | Average utilisation rate | Supply volume | Designed capacity | Average utilisation rate | Supply volume | Designed capacity | Average utilisation rate | Supply volume | Designed capacity | Average utilisation rate[(1)] |
| | ton'000 | ton'000 | % | ton'000 | ton'000 | % | ton'000 | ton'000 | % | ton'000 | ton'000 | % |
| Nanjiao Supply Plant | 23,288 | 22,813 | 102.1 | 23,729 | 22,813 | 104.0 | 24,423 | 22,813 | 107.1 | 20,517 | 19,062.5 | 107.6 |
| Beijiao Supply Plant | 29,601 | 36,500 | 81.1 | 32,239 | 36,500 | 88.3 | 33,370 | 36,500 | 91.4 | 32,023 | 37,385[(2)] | 85.7 |
| Hejiang Supply Plant | 7,571 | 10,950 | 69.1 | 8,098 | 10,950 | 74.0 | 8,809 | 10,950 | 80.5 | 7,632 | 9,150 | 83.4 |
| Lantian Supply Plant | 3,558 | 2,920 | 121.9 | 3,096 | 2,920 | 106.0 | 3,164 | 2,920 | 108.4 | 2,867 | 2,440 | 117.5 |
| Qiancao Supply Plant | 6,622 | 10,585 | 62.6 | 8,371 | 10,585 | 79.1 | 9,468 | 10,585 | 89.5 | 8,279 | 8,845 | 93.6 |
| Guanshan Supply Plant | 1,595 | 2,190 | 72.8 | 1,754 | 2,190 | 80.1 | 2,077 | 2,190 | 94.8 | 1,914 | 1,830 | 104.6 |
| **Total** | 72,235 | 85,957.5 | 84.0 | 77,288 | 85,957.5 | 89.9 | 81,311 | 85,957.5 | 94.6 | 73,232 | 78,712.5 | 93.0 |

*Notes:*

(1) Average utilisation rate is calculated by dividing the actual supply volume of the indicated period by (i) 305 for the ten months ended 31 October 2016 and (ii) the designed daily supply capacity of the plant.

(2) The designed capacity of Beijiao Supply Plant expanded after completion of construction of Beijiao Supply Plant Phase III in May 2016 and we are in the process of applying for relevant license for the project.

During the Track Record Period, the average tap water volume supplied by certain tap water supply plants exceeded their respective designed daily capacity. In general, the actual processing capacities of our tap water supply plants are higher than their respective designed capacities, to ensure continuous normal operations. We are in the process of constructing certain new tap water supply plants and upgrading selected existing tap water supply plants and related infrastructure in order to increase the designed processing capacity of such plants. For more details, please refer to the section "— Project and Operation Management — Construction of Plants and Pipelines — Construction of plants — Construction Projects for Tap Water Supply Plants".

**Sales of Tap Water**

We distribute tap water directly to end users through our proprietary pipeline network.

Our end users include residential users and non-residential users. The table below sets forth information in relation to our tap water supply operations by end user type for the indicated periods:

| | Year ended 31 December | | | | | | Ten months ended 31 October | |
|---|---|---|---|---|---|---|---|---|
| | 2013 | | 2014 | | 2015 | | 2016 | |
| | | % | | % | | % | | % |
| **Sales volume (million ton)** | | | | | | | | |
| Residential | 40.2 | 63.6 | 44.6 | 64.5 | 51.0 | 66.9 | 46.6 | 68.4 |
| Non-residential(1) | 23.0 | 36.4 | 24.6 | 35.5 | 25.2 | 33.1 | 21.5 | 31.6 |
| Total | 63.2 | 100.0 | 69.2 | 100.0 | 76.2 | 100.0 | 68.1 | 100.0 |
| **Number of end user accounts at the end of the period (in thousand)** | | | | | | | | |
| Residential | 163 | 83.5 | 185 | 84.5 | 205 | 85.2 | 222 | 85.4 |
| Non-residential(1) | 32 | 16.5 | 34 | 15.5 | 36 | 14.8 | 38 | 14.6 |
| Total | 195 | 100.0 | 219 | 100.0 | 241 | 100.0 | 260 | 100.0 |

*Note:*

(1) Tap water usage by non-residential end users includes general non-residential usage, special purpose usage and industrial/temporary usage.

Our total supply volume, including tap water we produced at our tap water supply plants and procured from third party suppliers, in 2013, 2014 and 2015 and the ten months ended 30 October 2016 was 78.3 million ton, 84.8 million ton, 89.0 million ton and 80.4 million ton, respectively. Our total sales volume in 2013, 2014 and 2015 and ten months ended 31 October 2016 was 63.2 million ton, 69.2 million ton, 76.2 million ton and 68.1 million ton, respectively. The difference in supply volume and sales volume represented volume loss of 19.3%, 18.4%, 14.4% and 15.3% in 2013, 2014 and 2015 and the ten months ended 31 October 2016, respectively. Volume loss was caused by a number of reasons, including pipe leakage and discrepancy between actual volume used and reported by end users. During the Track Record Period, we took various measures to proactively reduce volume loss, including upgrading old pipelines, increasing frequency of pipeline maintenance to detect and fix leakage point, and enhancing meter reading effort. As a result, we achieved general decreases in volume loss during the Track Record Period.

We entered into Urban Water Supply Agreements (城市供用水合同) with residential and non-residential end users, which provide, among other things:

- unit price and payment method, which is usually by monthly payments for non-residential end users or bi-monthly payments for residential end users;

- retail price and meter reading arrangement, which is usually on a monthly or bi-monthly basis;

- end users' rights and obligations, including the rights to demand confirmation of meter reading and payment and the obligation to make payment;
- our rights and obligations, including our obligation to supply quality tap water on a continuous basis and our rights to charge late fees;
- remedies for breach of relevant obligations, usually in the form of penalty fees; and
- term of the agreement, usually valid until terminated and without a specific expiration date.

The agreements also include provisions on pipeline and equipment maintenance arrangements. Tap water supply agreements with non-residential end users generally also set forth a non-binding estimated daily and monthly water consumption volume, which is mainly used by us to manage supply.

Our Directors confirm that during the Track Record Period, there was no material safety incident or material dispute between us and our tap water end users.

**Pricing**

During the Track Record Period, our tap water retail prices in Luzhou urban area, Lu County and Hejiang County were set by Luzhou DRC, Lu County DRC and Hejiang County DRC, respectively, pursuant to the relevant rules and regulations. However, the water resources fee included in our tap water retail prices in Luzhou urban area, Hejiang County and Lu County was set by Sichuan province DRC. In addition, according to Notice on Decentralizing Pricing in Relation to Non-residential and Special Purpose Usage Tap Water Retail Price [2015] 884 jointly issued by Sichuan Province DRC and Sichuan Province Housing and Urban-Rural Development Bureau in November 2015, we were given the pricing right in respect of non-residential and special purpose usage tap water retail prices. For further details on pricing, please refer to the section headed "Regulatory Environment — Concession in Municipal Public Utilities Projects — Pricing" in this prospectus. Retail prices at Luzhou urban area and Hejiang County were not changed prior to May 2016 during the Track Record Period. Retail prices at Lu County were increased by Lu County DRC in December 2014.

The table below sets forth tap water retail prices for the three areas during the Track Record Period:

| | Residential | General Non-residential | Special Purpose | Temporary | Industrial |
|---|---|---|---|---|---|
| | | | RMB/ton | | |
| Luzhou urban area . . . | 1.90(1) | 2.35/2.39(2) | 4.80/4.84(2) | 3.55/3.59(2) | 2.35/2.39(2) |
| Hejiang County . . . . . | 1.82 | 2.64 | 4.40 | 2.64 | 1.96 |
| Lu County(3) . . . . . . . | 2.60/2.80/2.80 | 3.10/3.35/3.39 | 5.20/5.50/5.54 | 3.10/4.68/4.72 | 2.75/3.35/3.39 |

*Notes:*

(1) Reflecting prices before the implementation of the tiered price structure based on usage volume for residential end users in May 2016.

(2) Reflecting prices before/after price adjustment of water resources fee in May 2016 by Sichuan Province DRC.

(3) Reflecting prices before/after price adjustment in December 2014 by Lu County DRC and price adjustment of water resources fee in June 2016 by Sichuan Province DRC.

A tiered price structure based on usage volume for residential end users was implemented in Luzhou urban area in May 2016 pursuant to the Notice of Establishment of the Tiered Water Price Structure for Urban Residents. The notice provided that the usage volume shall be measured on an annual basis. The table below sets forth details of the tiered price structure:

| | | | |
|---|---|---|---|
| Volume (ton) | 180 or less | 180–300 | 300 or more |
| Price (RMB/ton)(1) | 1.94 | 2.86 | 5.64 |

*Note:*

(1) For residential end users who use shared meter and cannot be charged based on individual usage volume, a flat rate of RMB2.04/ton is applied. All the adjusted prices include an additional 0.09RMB/ton water resources fee.

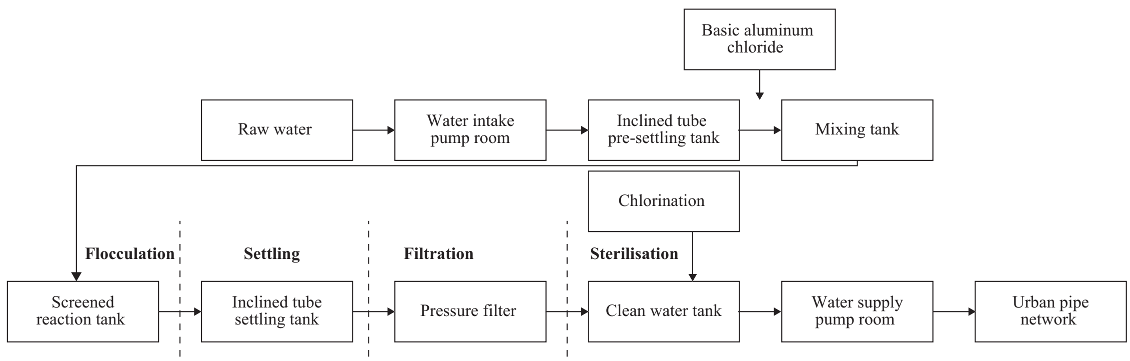
The rate for the lowest tier is RMB1.94 per ton, which is higher than the flat rate of RMB1.90 per ton for residential end users prior to the implementation of the tiered price structure. The rate for end users with shared meters is also increased by RMB0.14 per ton, or 7.4% from the flat rate of RMB1.90 per ton previously charged. The total sales volume to residential end users in Luzhou urban area in the four months from 1 June 2016 to 30 September 2016 after the implementation of the tiered price structure was approximately 16.1 million ton, which increased by 7.9% from 14.8 million ton in the four months from 1 June 2015 to 30 September 2015. Revenue generated from residential end users in the Luzhou urban area increased in the four months ended 30 September 2016 when compared to the four months ended 30 September 2015. When calculating the revenue generated from residential end users with single meters in Luzhou for the four months ended 30 September 2016, we applied the rate for the lowest tier of RMB1.94 per ton. Based on such information, the Directors expect our revenue for tap water supply operations to increase in the foreseeable future as a result of the implementation of such tiered price structure. In addition, during the Track Record Period, our cost of sales and services associated with the sales of tap water consisted primarily of raw materials and operational costs for providing tap water supply, such as cost of electricity, salaries of employees at the water supply plants. Our Directors do not expect the implementation of the tiered price structure would cause any significant change in our operations or any significant increase in cost of sales and services associated with the sales of tap water. As such, our Directors believe that it is more likely than not that our gross profit margin for the sales of tap water operations would also increase as a result of the increase in the relevant revenue following the implementation of the tiered price structure.

## Tap Water Production Processes

### *Production process*

We use a combination of physical and chemical methodologies to produce tap water from raw water procured from local rivers.

The diagram below illustrates the typical major phases of tap water production in our plants:




The water production process can be summarised in the following key steps:

*Flocculation*: raw water is pumped from rivers through pipelines into a reaction tank in a water treatment plant for flocculoreaction through the addition of basic aluminum chloride.

*Settling*: the suspended matters formed after flocculation through the addition of basic aluminum chloride settle in a settling tank.

*Filtration*: after the settling of large-sized suspended matters, water enters a filtration tank for the filtration of micro-sized and small-sized suspended matters.

*Sterilisation*: the filtered water is sterilised through the addition of liquid chlorine or chlorine dioxide, and then enters and is stored in a clean water tank.

***Raw water procurement***

We produce tap water from raw water procured mainly from Yangtze river near our tap water supply plants together with a small amount of raw water from underground to our Qiancao Supply Plant and pay procurement fees to relevant government authorities. The table below sets forth the amount and unit price of raw water we procured for each of our water supply plants during the Track Record Period.

| | Year ended 31 December | | | | | | Ten months ended 31 October | |
|---|---|---|---|---|---|---|---|---|
| | 2013 | | 2014 | | 2015 | | 2016 | |
| | ton'000[(1)] | RMB | ton'000[(1)] | RMB | ton'000[(1)] | RMB | ton'000[(1)] | RMB |
| Nanjiao Supply Plant | 24,781 | 0.05 | 23,652 | 0.05/0.07[(2)] | 25,685 | 0.07/0.09[(3)] | 22,900 | 0.09 |
| Beijiao Supply Plant | 37,243 | 0.05 | 33,975 | 0.05/0.07[(2)] | 35,093 | 0.07/0.09[(3)] | 33,701 | 0.09 |
| Hejiang Supply Plant | 8,123 | 0.05 | 8,214 | 0.05/0.07[(2)] | 10,001 | 0.07/0.09[(3)] | 8,039 | 0.09 |
| Lantian Supply Plant | 3,871 | 0.05 | 3,339 | 0.05 | 3,341 | 0.07 | 3,039 | 0.09 |
| Qiancao Supply Plant (raw water from rivers) | 3,094 | 0.05 | 2,661 | 0.05/0.07[(2)] | 3,178 | 0.07/0.09[(3)] | 2,662 | 0.09 |
| Qiancao Supply Plant (raw water from underground) | 3,220 | 0.13 | 3,327 | 0.13/0.16[(2)] | 3,678 | 0.16/0.18[(3)] | 3,286 | 0.18 |
| Guanshan Supply Plant | 1,709 | 0.05 | 1,876 | 0.05/0.07[(2)] | 2,210 | 0.07 | 2,031 | 0.09 |
| Total | 82,042 | – | 77,045 | – | 83,186 | – | 75,657 | – |

*Notes:*

(1) Volume of raw water procured is recorded based on payment settlement date. Each plant has got different settlement dates. As such, the total volume for each year of the Track Record Period is represented by the sum of the preceding 12 months (or 10 months for the year 2016) of recorded raw water procured.

(2) Reflecting prices before/after price adjustment effective on 1 December 2014 by Sichuan Province DRC* (四川省發展和改革委員會), Sichuan Province Department of Finance* (四川省財政廳) and Sichuan Province Water Resource Department* (四川省水利廳).

(3) Reflecting prices before/after price adjustment effective on 1 December 2015 by Sichuan Province DRC* (四川省發展和改革委員會), Sichuan Province Department of Finance* (四川省財政廳) and Sichuan Province Water Resource Department* (四川省水利廳).

Each of our tap water supply plant has obtained the necessary Water Procurement Permit (取水證) from Sichuan Province Water Resources Department (四川省水利廳) or local Water-affair Bureaus* (水務局). The raw water we draw is required to meet the Surface Water Quality Standard Class III (GB3838-2002). As such, we monitor the quality of raw water at the point of procurement. The unit procurement price is determined pursuant to the Sichuan Province Water Procurement Permit and Water Resources Price Management Measures (四川省取水許可和水資源費徵收管理辦法). Our total raw water procurement cost was RMB4.1 million, RMB4.5 million, RMB6.0 million and RMB6.7 million in 2013, 2014 and 2015 and the ten months ended 31 October 2016, respectively, representing 1.9%, 1.9%, 1.5% and 2.0% of total cost of sales and services of tap water supply business for the same periods.

***Purchase of tap water from third parties***

During the Track Record Period, we purchased a portion of tap water we supplied to end users from two Independent Third Parties, namely, Supplier A and Supplier B as a supplement to our own tap water production operations due to the growth in the level of demand for tap water in Luzhou Area. The procurement agreements set forth, among other things, payment method, which is by monthly installment; rights and obligations of parities, including the supplier's obligation to supply quality tap water to us without interruption and our rights to seek monetary and other damages in the event of breach; procurement fee, which is calculated based on procurement volume and the unit procurement price. The unit procurement prices did not change during the Track Record Period. There is no minimum procurement volume required in the procurement agreements.

Supplier A is a SOE located in Naxi District whose main businesses include chemical production and chemical engineering. Supplier A operates two tap water plants to supply tap water to its facilities and employee residences and sells the excess tap water produced to us. Tap water produced by Supplier A's plants meets the requisite quality standards, including the Standards for Drinking Water Quality (GB5749-2006). Supplier A has been supplying tap water to us for over 20 years. Supplier B is a SOE located in Longmatan District whose main business is chemical engineering. Supplier B operates a tap water plant to supply tap water to its facilities and employee residences and sells the excess tap water produced to us. Tap water produced by Supplier B's plant meets the requisite quality standards, including the Standards for Drinking Water Quality (GB5749-2006). Supplier B has been supplying tap water to us for over 10 years.

We perform water quality tests of tap water procured from the two suppliers on a weekly basis to ensure the tap water supplied to us meets the relevant quality standards. In addition, we perform sampling tests of tap water drawn from selected pipeline terminals of the two suppliers' pipeline network on a monthly basis. We did not have any dispute over tap water quality supplied to us or other matters with the two suppliers during the Track Record Period.

The table below sets forth a summary of our purchase of tap water for the indicated periods:

| | Year ended 31 December | | | Ten months ended 31 October |
|---|---|---|---|---|
| | 2013 | 2014 | 2015 | 2016 |
| **Supplier A** | | | | |
| Purchased volume (ton'000) | 4,152 | 5,581 | 5,737 | 5,329 |
| Percentage as to total supply volume | 5.3% | 6.6% | 6.4% | 6.6% |
| Unit price (RMB/ton) | 0.99 | 0.99 | 0.99 | 0.99 |
| **Supplier B** | | | | |
| Purchased volume (ton'000) | 1,887 | 1,959 | 1,908 | 1,848 |
| Percentage as to total supply volume | 2.4% | 2.3% | 2.1% | 2.3% |
| Unit price (RMB/ton) | 0.90 | 0.90 | 0.90 | 0.90 |

## OUR WASTEWATER TREATMENT SERVICES

### Overview

We entered into the wastewater treatment business in 2003 after constructing our first wastewater treatment plant in Yaerdang area. As of the Latest Practicable Date, we operated nine wastewater treatment plants in Luzhou Area, including Erdaoxi Treatment Plant and Naxi Treatment Plant that respectively contain two projects of Phase I and Phase II. Among the nine wastewater treatment plants, four were built by us and five were acquired from local governments. We generated revenue from tariff payment made to us by the relevant local government authorities based on the agreed-upon unit price and treatment volume. The total designed capacity of our wastewater treatment plants was 261,000 tons per day as of 31 October 2016. As of the Latest Practicable Date, we are receiving guaranteed minimum treatment tariff from the local government for the three new projects we constructed during the Track Record Period pursuant to the relevant agreements with the relevant local government.

The table below sets forth information in relation to our wastewater treatment plants in operation as of 31 October 2016:

| | Yaerdang Treatment Plant | Erdaoxi Treatment Plant | Naxi Treatment Plant | Xuyong Treatment Plant | Lu County Treatment Plant | Hejiang Treatment Plant | Gulin Treatment Plant | Chengdong Treatment Plant | Chengnan Treatment Plant |
|---|---|---|---|---|---|---|---|---|---|
| Project type | BOO | BOO | (i) TOO (Phase I); (ii) BOO (Phase II) | TOO | TOO | TOO | TOO | BOO | BOO |
| Entity name | Xinglu Wastewater Treatment | Xinglu Wastewater Treatment | Xinglu Wastewater Treatment | Xinglu Wastewater Treatment | Xinglu Wastewater Treatment | Xinglu Wastewater Treatment | Xinglu Wastewater Treatment | Xinglu Wastewater Treatment | Xinglu Wastewater Treatment |
| Designated area | Luzhou urban area | Luzhou urban area | Luzhou urban area | Xuyong County | Lu County | Hejiang County | Gulin County | Luzhou urban area | Luzhou urban area |
| Time of acquisition/ completion of construction | February 2003 | (i) December 2010 (Phase I); (ii) December 2014 (Phase II) | (i) August 2012 (Phase I); (ii) April 2015 (Phase II) | October 2011 | February 2013 | April 2014 | July 2014 | May 2016 | May 2016 |
| Occurrence of Triggering Events during the Track Record Period(1) | 2, 7 | 1, 2, 3, 7 | 1, 3, 7 | 7 | 6, 7 | 6, 7 | 6, 7 | 1, 3, 7 | 1, 3, 7 |
| Triggering Events may be occurred after Track Record Period(1) | 4, 5 | 4, 5 | 4, 5 | 4, 5 | 4, 5 | 4, 5 | 4, 5 | 4, 5 | 4, 5 |
| Acquisition consideration (RMB in million) | N/A | N/A | (i) 35.0 (Phase I); (ii) N/A (Phase II) | 47.0 | 24.5 | 41.4 | 30.2 | N/A | N/A |
| Date of concession agreement | May 2014(2) | May 2014(2) | May 2014(2) | April 2016(3) | April 2016(3) | April 2016(3) | March 2016(3) | May 2014 | May 2014 |
| Concession term (years) | 30 | 30 | 30 | 30 | 30 | 30 | 30 | 30 | 30 |
| Start of the concession period | January 2013 | January 2013 | January 2013 | March 2012 | February 2013 | May 2014 | August 2014 | January 2013 | January 2013 |
| End of the concession period | December 2042 | December 2042 | December 2042 | February 2042 | January 2043 | April 2044 | July 2044 | December 2042 | December 2042 |
| Designed capacity (ton'000/day) | 50.0 | 40.0 | 27.5 | 20.0 | 6.0 | 10.0 | 7.5 | 50 | 50 |
| Minimal treatment volume (ton'000/day) | 40.0 | 30.0 | 21.5 | 20.0 | 6.0 | 9.0 | 6.75 | 30 | 30 |
| Unit tariff price (RMB/ton) | 2.88 | 2.88 | (i) 2.86 (Phase I); (ii) 2.88 (Phase II) | 2.03 | 3.35 | 2.60 | 3.32 | 2.88 | 2.88 |
| Treatment technology | $A^2O$ | CASS | (i) CAST (Phase I); (ii) $A^2O$ (Phase II) | CASS | CAST | CAST | Oxidisation circulation | $A^2O$ | $A^2O$ |
| Quality requirement for discharged water(4) | B | A | (i) B (Phase I); (ii) A (Phase II) | A | B | B | A | A | A |

*Notes:*

(1) For the details of the triggering events and its associated accounting treatment, please refer to section headed "Financial Information — Accounting Treatment of Our Service Concession Arrangements — Summary of accounting treatment for our BOO and TOO Projects" of this Prospectus.

(2) In 2013, the People's Government of Luzhou City (瀘州市人民政府) issued a Notice for Accelerating Urban Wastewater Treatment in Luzhou City (關於加快推進我市城市生活污水處理工作的通知) which mandated that concession rights shall be granted to operators of wastewater treatment services in Luzhou urban area pursuant to concession agreements.

(3) We provided wastewater treatment services in the plant pursuant to a service agreement entered into with the relevant government authorities prior to entering into the concession agreement in 2016. For more details, please refer to "— Project and Operation Management — Concession Rights to Conduct Wastewater Treatment Operations".

(4) As set forth in the Standards of Discharged Water for Urban Wastewater Treatment Plants (城鎮污水處理廠污染物排放標準)(GB18918-2002).

| | | | Class I (Unit: mg/L) | |
|---|---|---|---|---|
| **Number** | **Basic regulated pollutants** | | **Standard A** | **Standard B** |
| 1 | COD | | 50 | 60 |
| 2 | $BOD_5$ | | 10 | 20 |
| 3 | SS | | 10 | 20 |
| 4 | Animal and vegetable oil | | 1 | 3 |
| 5 | Oil | | 1 | 3 |
| 6 | Anionic surface-active agents | | 0.5 | 1 |
| 7 | Total amount of nitrogen (Calculated in N) | | 15 | 20 |
| 8 | $NH_4$ (Calculated in N) | | 5(8) | 8(15) |
| 9 | Phosphorous (Calculated in P) | Constructed before 31 December 2005 | 1 | 1.5 |
| | | Constructed after 1 January 2006 | 0.5 | 1 |
| 10 | Chromaticity (dilution multiple) | | 30 | 30 |
| 11 | pH | | 6–9 | 6–9 |
| 12 | Fecal Coliform (unit/L) | | $10^3$ | $10^4$ |

*Notes:*

(1) Implementation in accordance with removal rate indicators is as follows: When COD of inflow of water is greater than 350mg/L, then the removal rate should be greater than 60%; when BOD is greater than 160mg/L, then the removal rate should be greater than 50%.

(2) The value outside the bracket represents the controlling indicator when the water temperature is >12˚C, while the value insider the bracket represents the controlling indicator when the water temperature is ≤12˚C.

The table below sets forth a summary of the actual treatment volume and average utilisation rate of our wastewater treatment plants for the indicated periods:

| | Year ended 31 December | | | | | | | | | Ten months ended 31 October | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2013 | | | 2014 | | | 2015 | | | 2016 | | |
| | Treatment volume | Designed capacity | Utilisation rate | Treatment volume | Designed capacity | Utilisation rate | Treatment volume | Designed capacity | Utilisation rate | Treatment volume | Designed capacity | Average utilisation rate[1] |
| | ton'000 | ton'000 | % | ton'000 | ton'000 | % | ton'000 | ton'000 | % | ton'000 | ton'000 | % |
| Yaerdang | 16,968.8 | 18,250.0 | 93.0 | 18,730.4 | 18,250.0 | 102.6 | 18,834.5 | 18,250.0 | 103.2 | 16,018 | 15,250.0 | 105.0 |
| Erdaoxi | 6,457.1 | 7,300.0 | 88.5 | 7,265.5 | 7,300.0 | 99.5 | 11,890.8 | 14,600.0[2] | 81.4 | 11,165.3 | 12,200.0 | 91.5 |
| Naxi Phase I | 2,034.9 | 2,737.5 | 74.3 | 2,235.4 | 2,737.5 | 81.7 | 2,300.7 | 2,737.5 | 84.0 | 2,164.6 | 2,287.5 | 94.6 |
| Xuyong | 3,877.7 | 7,300.0 | 53.1 | 4,868.5 | 7,300.0 | 66.7 | 4,694.3 | 7,300.0 | 64.3 | 3,572.4 | 6,100.0 | 58.6[4] |
| Lu County | 2,124.4 | 2,190.0 | 97.0 | 2,216.8 | 2,190.0 | 101.2 | 2,191.5 | 2,190.0 | 100.1 | 1,843.9 | 1,830.0 | 100.8 |
| Hejiang | – | – | – | 2,596.9 | 3,650.0 | 71.2 | 2,941.2 | 3,650.0 | 80.6 | 2,707.5 | 3,050.0 | 88.8 |
| Gulin | – | – | – | 2,518.7 | 2,737.5 | 92.0 | 1,752.6 | 2,737.5 | 64.0[3] | 2,286.2 | 2,287.5 | 99.9 |
| Total | 31,462.9 | 37,777.5 | 83.3 | 40,432.2 | 44,165.0 | 91.5 | 44,605.6 | 51,465.0 | 86.7 | 39,757.9 | 43,005.0 | 92.4 |
| Naxi Phase II[5] | – | – | – | – | – | – | – | 3,680.0 | – | – | 6,100.0 | – |
| Chengdong[5] | – | – | – | – | – | – | – | – | – | – | 6,150.0 | – |
| Chengnan[5] | – | – | – | – | – | – | – | – | – | – | 6,150.0 | – |
| Total | – | – | – | – | – | – | – | 55,145.0 | – | – | 61,405.0 | – |

*Notes:*

(1) Average utilisation rate is calculated by dividing the actual treatment volume of the period indicated by (i) 305 for the ten months ended 31 October 2016 and (ii) the designed daily treatment capacity of the plant.

(2) The designed capacity of Erdaoxi Treatment Plant was expanded after completion of construction of Erdaoxi Treatment Plant Phase II in December 2014.

(3) The decrease in utilisation rate was due to a pipeline rupture that took three and half months to restore to normal operations.

(4) The decrease in utilisation rate was due to a pipeline rupture as a result of flood that took almost five months to restore to normal operation.

(5) We are in the trial operation stage and the local government is completing the construction of pipelines that connect to the wastewater treatment plants. Per the concession agreements with the relevant authorities, we may commence to collect wastewater treatment tariff once we commence trial operation. In November 2016, relevant government authorities approved to pay us the guaranteed minimum treatment tariff commencing on 1 July 2015 for Naxi Treatment Plant Phase II and commencing on 1 July 2016 for Chengdong Treatment Plant and Chengnan Treatment Plant.

We consider the total designed capacity of our wastewater treatment plants expanded by the commencement of trial operation of the three projects. However, due to the delay in completion of pipelines by the local government, we believe exclusion of Naxi Treatment Plant Phase II, Chengdong Treatment Plant and Chengnan Treatment Plant is a more meaningful reflection of our utilisation rate.

During the Track Record Period, volume processed by certain wastewater treatment plants exceeded their respective designed capacity. In general, the actual processing capacities of our wastewater treatment plants are higher than their respective designed capacities, as we provided for a certain level of margin capacity in order to ensure continuous normal operations during the short periods in which wastewater supplied to the plants exceed the designed capacity. We are in the process of expanding the treatment capacity of certain plants. For more details, please refer to the section "— Project and Operation Management — Construction of Plants and Pipelines — Construction of plants — Construction Projects for Wastewater Treatment Plants".

The table below sets forth the relevant guaranteed operating service revenue generated for each of our wastewater treatment plants during the Track Record Period.

| | Year ended 31 December | | | | | | Ten months ended 31 October | |
|---|---|---|---|---|---|---|---|---|
| | 2013 | | 2014 | | 2015 | | 2016 | |
| | Relevant guaranteed operating service revenue | % of relevant guaranteed operating service revenue to the total operating service revenue | Relevant guaranteed operating service revenue | % of relevant guaranteed operating service revenue to the total operating service revenue | Relevant guaranteed operating service revenue | % of relevant guaranteed operating service revenue to the total operating service revenue | Relevant guaranteed operating service revenue | % of relevant guaranteed operating service revenue to the total operating service revenue |
| | (RMB'000) | | (RMB'000) | | (RMB'000) | | (RMB'000) | |
| Xuyong | 7,792 | 100.0% | 8,927 | 100.0% | 10,108 | 100.0% | 7,548 | 100.0% |
| Gulin | – | – | 1,707 | 57.1% | 3,984 | 71.2% | 3,693 | 79.2% |
| Hejiang | – | – | 3,937 | 88.8% | 6,344 | 88.2% | 5,392 | 95.7% |
| Lu County | 3,679 | 65.2% | 4,558 | 73.1% | 4,594 | 84.5% | 3,793 | 93.9% |
| Naxi Phase I | 3,712 | 91.8% | 4,243 | 97.0% | 3,723 | 100.0% | 3,097 | 100.0% |
| Yaerdang | 26,569 | 60.8% | 30,912 | 64.3% | 29,715 | 81.6% | 23,969 | 72.7% |
| Erdaoxi Phase I | 10,627 | 64.6% | 12,365 | 66.6% | 11,886 | 45.0% | 9,542 | 76.0% |
| Erdaoxi Phase II | – | – | – | – | 8,807 | 85.5% | 9,841 | 80.6% |
| Naxi Phase II | – | – | – | – | 3,839 | 100.0% | 6,880 | 100.0% |
| Chengdong | – | – | – | – | – | – | 6,543 | 100.0% |
| Chengnan | – | – | – | – | – | – | 5,736 | 100.0% |
| Total | 52,379 | 67.5% | 66,649 | 71.2% | 83,000 | 76.1% | 86,034 | 84.4% |

**Pricing**

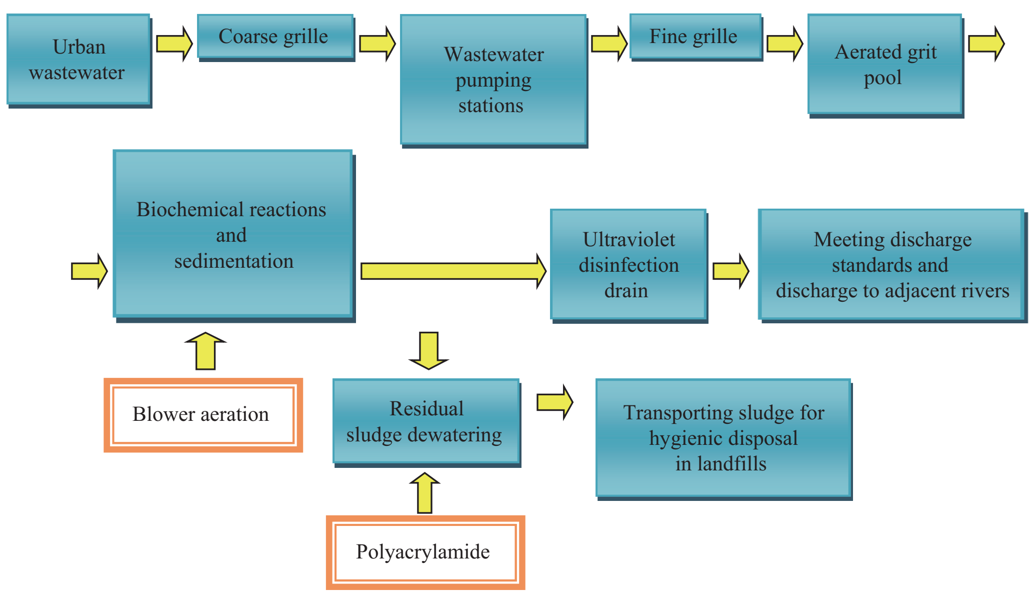
Pursuant to the Regulations on Urban Drainage and Sewage Treatment (《城鎮排水與污水處理條例》) promulgated on 2 October 2013 and implemented on 1 January 2014 by the State Council, the competent government authorities to set unit tariff price are the Housing and Urban-Rural Development Department of the State Council in conjunction with other relevant departments of the State Council. In Luzhou Area, tariff unit price for wastewater treatment services provided by each treatment plant is individually negotiated with and approved by the relevant government authorities. The tariff unit price at each of our wastewater treatment project remained unchanged during the Track Record Period. For more details, please refer to "— Our Wastewater Treatment Services — Overview".

The actual tariff paid to us depends on the unit price and the treatment volume. The treatment volume of a wastewater treatment plant depends on the incoming volume of wastewater delivered to the plant and is beyond the control of the plant. Our service agreements with competent local government authorities generally provide that, if the actual volume of wastewater delivered to a plant during a given period does not reach a certain minimum treatment volume, the treatment volume of the plant during that period will be deemed to be the minimum treatment volume and the tariff payment will be calculated based on the minimum treatment volume accordingly. For more detail, please refer to "— Our Wastewater Treatment Services — Overview".

**Treatment Process**

Our wastewater treatment plants currently use three processes, namely, $A^2O$, CASS (or CAST, as an upgrade of CASS, is more efficient in nitrogen and phosphorus removal) and oxidation circulation processes which is similar to $A^2O$ except for the oxidisation process.

The diagram below illustrates the major steps in the wastewater process:




Wastewater first enters a coarse screen chamber through an interception tank to remove large suspended and floating particles. Wastewater is then conducted into a lift pump room, where a lift pump transports the wastewater to a fine screen chamber to further remove small floating particles. In the next stage, wastewater is led into an aeration sand tank to further remove organic pollutants which attach to the sands through a process whereby the suspended matters collide with and rub against each other under the effect of spiral rotation produced by aeration and water current; and the sands settling at the bottom of the tank are removed by a sand-sucking pump. After treatment in the aeration sand tank, wastewater undergoes the biochemical reactions and sedimentation which takes place in different equipment for different treatment processes namely, in an $A^2O$ biochemical tank for $A^2O$ process, a CASS biochemical tank for CASS process or multiple inter-connected oxidation ditches for oxidation circulation process. In the biochemical tank, wastewater flows through the sludge in the tank to remove organic matters, phosphorus, nitrogen and other substances in wastewater through nitration, denitrification, aeration and other biological treatment processes. After subsequent settling and separation, the resulting supernatant fluid then undergoes in-depth filtration and sterilisation and is finally discharged into adjacent rivers such as Yangtze River after reaching relevant national standards. For more details regarding discharge standards for wastewater after treatment, please refer to section headed "Regulatory Environment — Concession in Municipal Public Utilities Projects — Water Quality". Such wastewater after treatment may not be able to meet the applicable raw water quality standards such as Surface Water Environment Standards and will not be used as our raw water source for our tap water supply business accordingly.

## QUALITY CONTROL

The tap water we distribute to end users has to meet the applicable quality standards, including the National Drinking Water Standards (GB5749-2006) (國家生活飲用水衛生標準), which was jointly promulgated by the Standardization and Administration of the PRC and the Ministry of Health of the PRC (now known as the National Health and Family Planning Commission of the PRC) on 1 July 2007. For water quality inspection, we strictly follow the National Drinking Water Standard Inspection Procedures (GBT5750) (國家生活飲用水標準檢驗方法).

We also monitor the quality of raw water we procure from local rivers to ensure such raw water meets the Surface Water Environment Standards (GB3838) (地表水環境品質標準), jointly promulgated by the Ministry of Environmental Protection and the General Administration of Quality Supervision, Inspection and Quarantine on 28 April 2002.

We implemented three levels of water quality inspections:

- hourly inspection by operational inspection staff: we perform hourly water quality inspection on the following parameters: raw water opacity, pre-filter water opacity, and water opacity and free chlorine level of post-production water;

- periodic inspection by inspection staff at each plant: each plant has an inspection staff and we perform water quality inspection at the plant at least once per weekday. In addition, we set several checkpoints along the delivery pipeline network for each plant and require the staff to perform water quality inspection at each of such checkpoint at least 2 times per month by way of sampling; and

- periodic inspection by our water quality control center: we have a water quality control center that performs comprehensive quality inspection and sample analyses on water samples collected from each plant and checkpoint at least once a month.

We have implemented a series of quality control measures and procedures to ensure the water quality at our tap water supply and wastewater treatment plants:

- the installation of a real time water quality monitoring system or on-site sampling at each plant to track and record quality data of input and output water at regular intervals throughout the day;

- the installation of a monitoring system at our headquarters which allow us to remotely monitor the operations at each of our plant 24 hours a day;
- the regular maintenance of all electrical and mechanical equipment as well as updated logs and reports of such maintenance;
- the hosting of regular staff meetings whereby all key employees can discuss and analyse solutions for recent or potential problems; and
- the conducting of induction training sessions regarding the proper use of facility equipment as well as safety procedures.

Our Directors confirm that 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 treatment and tap water supply services.

## PROJECT AND OPERATION MANAGEMENT

We have implemented detailed project management policies to govern the key aspects of our tap water supply and wastewater treatment projects, including (i) project selection, (ii) tender and acquisition procedures, (iii) construction of plants and pipelines, (iv) testing, inspection and trial operation, and (v) pipeline maintenance.

### Project Selection

We engaged third parties to perform feasibility studies for each of our BOO projects during the Track Record Period which is in line with industry practice and/or relevant government requirements including requirements from the State Council. The feasibility studies contained the key aspects of the projects, and typically included the following segments:

- an overview of the project;
- geographic and demographic overview of the area where the plant is to be located;
- service demand projection;
- plant design and operational parameters;
- design for ancillary facilities;
- construction plan, such as plan for land use right procurement, construction phases and materials;
- energy conservation studies;
- safety and health studies;

- funding plan including funding costs and source of funding; and
- conclusion.

For BOO projects which have constructed or are under construction during the Track Record Period, the feasibility studies also typically included the following additional segments:

- environmental impact studies;
- investment return projection;
- pay back period; and
- plan for public bidding process.

We generally reviewed feasibility studies available from parties whom we acquired the relevant facilities and we performed internal evaluation on each of our TOO projects that are in operation during the Track Record Period with reference to such feasibility studies. The internal evaluation reports typically included the following segments:

- an overview of the designed capacity and operational statistics of the plant;
- geographical overview of the area where the plant is located;
- total budget;
- the method of acquisition and funding plan;
- investment return projection; and
- conclusion.

We generally consider other factors in the following in addition to the feasibility studies before procuring BOO and TOO projects:

- local urbanisation rate, urban development plan, level of economic development and affordability of local government and citizens;
- local tap water supply capacity/wastewater treatment rate;
- adequacy of local water resource and pipeline construction;
- attention and policies of local government on water supply and wastewater treatment; and
- fairness of financial analysis in the feasibility studies.

Feasibility studies are discussed at project evaluation meetings and different levels of internal approval are required for projects of different scale.

In addition, in 2016 we have implemented a detailed group investment management policy to govern our plant acquisition process, which we will follow in assessing future investment, including acquisition of plants and fixed assets. The management policy sets forth, among other things:

*Internal approval level*. Different levels of internal approval required for different investment amounts.

*Internal approval materials*. Information and documents required for internal approval at the Company level include project application, feasibility study, draft of key contracts, financial information of the potential investee, required government approval and assessment of capability of project management.

*Internal approval process*. The internal approval process involves various functionality groups and departments of the Company to ensure that major aspects of the investment projects are covered in the approval process.

*Investment execution*. Once an investment is approved, the execution team shall follow detailed execution procedures to carry out the investment. For example, different execution procedures are set out for construction and asset acquisition, among other things.

*Investment management*. A manager is assigned to each investment and is responsible for monitoring the status of the investment and reporting to the management of the Company.

The available feasibility studies for BOO and TOO projects aforementioned typically included an estimation of investment return rate and payback period. The estimation generally adopted the applicable financial models and parameters promulgated by the NDRC or other industrial regulatory authorities and organisations for calculation of investment return rate and payback period based on the following key assumptions that were in line with industry practice and/or relevant government requirements:

- estimated tariff with reference to standard industry return rate and/or cost plus method based on reasonable costs and reasonable returns to assess the estimated tariff can lead to return rate above the standard industry return rate of around 6% for water supply projects and around 4% for wastewater treatment projects;

- supply/treatment volume based on designed capacity;

- prevailing tax rates applicable to our operations, generally with the assumption that the prevailing EIT of 25% will apply with no additional beneficial tax treatment;

- potential subsidy from local governments, if likely pursuant to local government policy, and with the general assumption of no one-off subsidy from local governments;

- estimated operational cost and expenses based on historical data, or based on estimated supply volume and a flat price for electricity, raw materials or labour based on the then prevailing prices applicable (A flat price for electricity, raw materials or labour was adopted according to the Method and Parameter of Economic Evaluation for Public Utility Projects (市政公用設施建設項目經濟評價方法與參數) in situations when a change is hard to predict and to comply with the cost compensation and reasonable income principle according to the Administration of Price of Urban Water Supply (城市供水價格管理辦法)) ; and

- depreciation and amortisation based on historical data or information at comparable plants.

Based on the feasibility studies available for BOO and TOO projects in operation and/or under construction during the Track Record Period, we estimated that the investment return rate before tax for BOO and TOO projects, representing the internal rate of return as stated in feasibility studies done before building the plant, would range from 5.07% to 9.88% and 4.02% to 6.95% respectively. We also estimated that our payback periods before tax for relevant projects to be in the range of approximately 12 to 16 years and 10 to 13 years for water supply plants and for wastewater treatment plants respectively.

For our sensitivity analysis, the two key parameters we considered in such sensitivity studies were tariff price and electricity price, the fluctuation of which our Directors believe would have prominent impact on our investment return. An increase or decrease in tariff price will shorten or increase the payback periods, respectively. An increase or decrease in electricity price will increase or shorten the payback periods, respectively. The impact also varies with individual project. Based on the wastewater treatment tariff remains constant and the fluctuation of average tap water tariff and electricity unit price are generally within the range of ±10% during the Track Record Period, the table below sets forth the approximate ranges of impact by the fluctuation of the relevant prices on the payback periods of our relevant projects in the Track Record Period:

| | Tap water supply | | Wastewater treatment | |
|---|---|---|---|---|
| **Increase/(decrease) in payback periods** | **Increase/(decrease) in tariff** | **Increase/(decrease) in electricity price** | **Increase/(decrease) in tariff** | **Increase/(decrease) in electricity price** |
| 10% | (1.7) years to (1.4) years | 0.1 years to 0.3 years | (2.4) years to (1.5) years | 0.2 years to 0.9 years |
| 5% | (1.0) years to (0.8) years | 0.1 years to 0.2 years | (1.3) years to (0.8) years | 0.1 years to 0.4 years |
| (5%) | 0.7 years to 1.2 years | (0.3) years to (0.2) years | 1.0 years to 1.8 years | (0.6) years to (0.1) years |
| (10%) | 1.8 years to 2.9 years | (0.4) years to (0.2) years | 2.1 years to 3.8 years | (1.0) years to (0.2) years |

**Tender and Acquisition Procedures**

Pursuant to the Concession Rights Measures, in order to conduct our tap water supply and wastewater treatment operation, we need to procure the relevant concession rights by entering into concession agreements with the competent government authorities. The concession rights are granted in relation to a designated service area for the specified concession period. Procurement of concession rights in relation to public utility business needs to be conducted through a public bidding process hosted by the relevant government authorities. For more details on the relevant government rules and regulations, please refer to the section “Regulatory Environment”.

Pursuant to our concession arrangements with the local governmental authorities, who are the grantors of the relevant concession rights, we construct and acquire infrastructure, including tap water supply and wastewater treatment plants, leasehold land, buildings and machinery for the purpose of the service concession arrangements. As such, our Directors determined that our concession arrangements are within the scope of IFRIC 12. For more details, please refer to the section “Financial Information — Critical Accounting Policies — 1. Service Concession Arrangements” and Notes 5 and 17 of the Accountants’ Report in Appendix I to the prospectus.

***Concession Rights to Conduct Tap Water Supply Operations***

We conduct our tap water supply operations in Luzhou urban area, Hejiang County and Lu County pursuant to the respective concession rights granted to us by the competent government authorities.

*Concession agreement in relation to our tap water supply operations in Luzhou urban area*

Our Company entered into a concession agreement with Luzhou Planning and Development Bureau (瀘州市規劃建設局) on 28 June 2005 for our tap water supply operations in the Luzhou urban area, which covers the operations of the Nanjiao Supply Plant, the Beijiao Supply Plant, the Lantian Supply Plant, the Qiancao Supply Plant and the Guanshan Supply Plant. The table below sets forth the key terms of the concession agreement:

| | |
|---|---|
| Grantor of concession rights | Luzhou Planning and Development Bureau (瀘州市規劃建設局), acting on behalf of Luzhou City Government (瀘州市人民政府) |
| Term of concession rights | 30 years, from 6 June 2005 to 6 June 2035 |
| Designated service area | Luzhou urban area (瀘州市規劃區), including Jiangyang District, Longmatan District and Naxi District |
| Exclusivity | The Company has the exclusive right to provide tap water supply services in the designated service area during the term of the concession agreement. |

| | |
|---|---|
| Company's rights | The Company shall be entitled to:<br>• apply for adjustments to the retail water prices in the event the Company cannot maintain minimal profit in its tap water supply operations due to changes on production cost or objective conditions;<br>• reasonable compensation for losses incurred due to government policies in relation to public interest;<br>• Priority to extend the concession right upon its expiration if the Company's performance during the concession period is satisfactory; and<br>• protection from impediment of our concession rights. |
| Company's responsibilities | During the concession period, the Company shall:<br>• ensure uninterrupted tap water supply to end users;<br>• disclose to the public the relevant tap water supply parameters, including quality, supply pressure and other service measures;<br>• monitor the quality of raw water source;<br>• maintain main water supply facilities, including water pumping stations, water purification plants and pipeline network;<br>• perform meter readings. |
| Initial unit prices | Initial unit prices for different types of end users are set in the agreement |

| | |
|---|---|
| Termination in the event of the Company's default | The government authorities have the right to terminate the concession agreement in the event of the Company's default, including:<br>• asset disposal without permission;<br>• material quality or safety accidents; or<br>• material adverse impact on public interest and safety due to close of business without permission. |

On 31 March 2016, we entered into a supplemental agreement to the concession agreement in order to update relevant terms and set out further details and clarification of the concession rights granted to us pursuant to the Measures on Concession Rights for Public Infrastructure and Utility (基礎設施和公用事業特許經營管理辦法) promulgated by NDRC in April 2015. The supplement agreement provides, among other things:

- a confirmation that the concession agreement also covers the operations of the Nanjiao Supply Plant II and Qiancao Supply Plant II;
- a clarification that the concession rights granted to our Company from the commencing date of the concession period also cover tap water supply operations we conducted through our subsidiaries;
- further details on our responsibility to fund repair and maintenance of tap water supply facilities;
- a confirmation that the ownership of tap water supply facilities which we invested and constructed belong to us during the concession period and will remain with us after the expiration of the concession period; and
- a confirmation that we are permitted to raise capital for construction, operation and maintenance of tap water supply facilities by multiple means, provided that if we pledge the equipment, plant, buildings or land use rights as collateral for borrowings, the proceeds of such borrowings can only be used for the operation of the tap water supply facilities and the term of such borrowings shall not exceed the concession period.

We were advised by our PRC legal adviser that the form and content of the concession agreement and supplemental agreement are in compliance with the provision of relevant laws and regulations. The concession agreement, as supplemented, is valid and binding, pursuant to which we and our subsidiaries have been granted valid concession rights by the competent government authorities to conduct tap water supply operations in the designated service area from the beginning of the concession period.

Pursuant to the concession agreement, we are also required to enter into Urban Water Supply Agreements (城市供用水合同) with residential and non-residential end users, which provide further details of our rights and obligations in our tap water supply operations. For more details, see "— Our Tap Water Supply Services — Sales of Tap Water".

*Concession agreement in relation to our tap water supply operations in Hejiang County*

We acquired the Hejiang Supply Plant in September 2003 from Hejiang County Government* (合江縣人民政府). Pursuant to the share purchase agreement entered into in September 2003, Hejiang County Government agreed to grant us (i) the exclusive concession right to provide tap water supply services in Hejiang County once the requisite conditions under the relevant rules and regulations are satisfied and (ii) applicable beneficial treatments for urban public utility service providers. On 4 April 2016, we entered into a concession agreement with Hejiang County Government, which covers the operations of Hejiang Supply Plant. Hejiang County Government confirmed in the concession agreement that we have the necessary qualifications and rights to conduct tap water supply service in Hejiang County since the time we started to provide such services in Hejiang County and the concession agreement also expressly sets forth that the term of the concession rights granted to us is for the concession period from September 2003 to September 2033.

The table below sets forth the key terms of the concession agreement:

| | |
|---|---|
| Grantor of concession rights | Hejiang County Government |
| Term of concession rights | 30 years, from 24 September 2003 to 23 September 2033 |
| Designated service area | Hejiang County (合江縣縣城規劃區) |
| Exclusivity | The Company has the exclusive right to provide tap water supply services in the designated service area during the term of the concession agreement. |
| The Company's rights | We are entitled to:<br>• apply for adjustments of retail water prices in the event the Company suffers loss due to irresistible objective conditions;<br>• reasonable compensation for losses incurred due to government policies in relation to public interest;<br>• priority to extend the concession right upon its expiration if the Company's performance during the concession period is satisfactory;<br>• protection from impediment of our concession rights. |

| | |
|---|---|
| The Company's responsibilities | During the concession period, the Company shall:<br><br>• ensure uninterrupted tap water supply to end users;<br><br>• disclose to the public the relevant tap water supply parameters, including quality, supply pressure and other service measures;<br><br>• monitor the quality of raw water source;<br><br>• maintain main water supply facilities, including water pumping stations, water purification plants and pipeline network;<br><br>• perform meter readings. |
| Initial unit prices | Initial unit prices for different types of end users at the time the agreement was entered into |
| Termination in the event of the Company's default | The government authorities have the right to terminate the concession agreement in the event of the Company's default, including:<br><br>• unauthorised transfer of lease of the concession rights;<br><br>• capital raising activities not in compliance with the relevant provisions that resulted in unauthorised asset pledge or disposal;<br><br>• material quality or safety accidents due to mismanagement; or<br><br>• material adverse impact on public interest and safety due to close of business without permission. |
| Permitted capital raising activities | We are permitted to raise capital for construction, operation and maintenance of tap water supply facilities by multiple means, provided that if we pledge the equipment, plant, buildings or land use rights as collateral for borrowings, the proceeds of such borrowings can only be used for the operation of the tap water supply facilities. In addition, the term of such borrowings shall not exceed the concession period and the pledge shall not result in the transfer of ownership. |

| | |
|---|---|
| Ownership and transfer of tap water supply facilities | The ownership of tap water supply facilities which we invested and constructed prior to the concession agreement date belongs to us and will remain with us after the expiration of the concession period, provided that, upon the expiration of the current concession period, if we fail to secure the extension of the concession right in a bidding process, we will transfer the relevant tap water supply facilities to Hejiang County Government for a consideration, based on the appraisal of the asset value by a third party appraisal company.<br><br>The ownership of tap water supply facilities which we invested and constructed after the concession agreement date belongs to us during the concession period and we will transfer such facilities to Hejiang County Government based on the appraisal of the residue value at the end of the concession period. |

We were advised by our PRC legal adviser that the concession agreement is legally binding and enforceable, pursuant to which we hold valid concession rights granted by the competent governmental authority to conduct tap water supply operations from September 2003 to September 2033 in Hejiang County.

*Concession agreement in relation to our tap water supply operations in Lu County*

We started to supply tap water to Lu County from our Beijiao Supply Plant in January 2002. In August 2001 and January 2002, the Luzhou City Government* (瀘州市人民政府) issued two meeting minutes designating us as the tap water supply service provider in Lu County. Our Company entered into a concession agreement with Lu County Housing and Urban-rural Planning and Development Bureau* (瀘縣住房和城鄉規劃建設局) on 30 March 2016 in response to the Measures on Concession Rights for Public Infrastructure and Utility* (基礎設施和公用事業特許經營管理辦法) promulgated in April 2015. In the concession agreement, Lu County Housing and Urban-rural Planning and Development Bureau* (瀘縣住房和城鄉規劃建設局) confirms that we have the necessary qualifications and rights to conduct tap water supply service in Lu County from 1 January 2005 to 1 January 2035 in the designated service area.

The table below sets forth the key terms of the concession agreement:

| | |
|---|---|
| Grantor of concession rights | Lu County Housing and Urban-rural Planning and Development Bureau* (瀘縣住房和城鄉規劃建設局), acting on behalf of Lu County Government* (瀘縣人民政府) |
| Term of concession rights | 30 years, from 1 January 2005 to 1 January 2035 |

| | |
|---|---|
| Designated service area | Lu County area (瀘縣城市規劃區及沿途鄉鎮) |
| Exclusivity | The Company has the exclusive right to provide tap water supply services in the designated service area during the term of the concession agreement. |
| The Company's rights | We are entitled to:<br>• apply for adjustments of retail water prices in the event the Company cannot maintain profit in its tap water supply operations; and<br>• protection from impediment of our concession rights. |
| The Company's responsibilities | During the concession period, the Company shall:<br>• ensure uninterrupted tap water supply to end users;<br>• disclose to the public the relevant tap water supply parameters, including quality, supply pressure and other service measures; and<br>• maintain main water supply facilities, including water pumping stations, water purification plants and pipeline network. |
| Initial unit prices | Initial unit prices for different types of end users are set in the agreement |
| Termination in the event of the Company's default | The government authorities have the right to terminate the concession agreement in the event of the Company's default, including:<br>• unauthorised transfer or lease of concession right;<br>• asset disposal without permission;<br>• material quality or safety accidents due to mismanagement; or<br>• material adverse impact on public interest and safety due to close of business without permission. |

| | |
|---|---|
| Permitted capital raising activities | We are permitted to raise capital for construction, operation and maintenance of tap water supply facilities by multiple means, provided that if we pledge the equipment, plant, buildings or land use rights as collateral for borrowings, the proceeds of such borrowings can only be used for the operation of the tap water supply facilities. In addition, the term of such borrowings shall not exceed the concession period. |
| Ownership of tap water supply facilities | The ownership of tap water supply facilities which we currently own and we later invest and construct during the concession period belongs to us and will remain with us after the expiration of the concession period, unless otherwise agreed by the parties. |

We were advised by our PRC legal adviser that the concession agreement is legally binding and enforceable, pursuant to which we hold valid concession rights granted by the competent governmental authorities to conduct the tap water supply operations from 1 January 2005 to 1 January 2035 in Lu County.

***Concession Rights to Conduct Wastewater Treatment Operations***

We conduct our wastewater treatment operations in Luzhou Area pursuant to the concession rights granted to us by the competent government authorities.

*Concession agreement in relation to our wastewater treatment operations in Luzhou urban area*

We constructed two wastewater treatment plants, namely, the Yaerdang Treatment Plant and the Erdaoxi Treatment Plant. We acquired the Naxi Treatment Plant from Luzhou Naxi District Guoxing Wastewater Treatment Co., Ltd.* (瀘州市納溪區國興污水處理有限公司), with which we entered into a transfer agreement. We further entered into a service agreement with Naxi District Government* (納溪區人民政府) on 10 August 2012. Xinglu Wastewater Treatment entered into a concession agreement with Luzhou Housing and Urban-rural Planning and Development Bureau* (瀘州市住房和城鄉規劃建設局) (currently known as Luzhou Housing and Urban-rural Development Bureau* 瀘州市住房和城鄉建設局) on 12 May 2014 which covers our operations in Luzhou urban area by Yaerdang Treatment Plant, Erdaoxi Treatment Plant and Naxi Treatment Plant, as well as operations by wastewater treatment plants within the Luzhou urban area which we acquire, construct, alter or expand, including our on-going construction projects at Naxi Treatment Plant Phase II, Chengdong Treatment Plant, and Chengnan Treatment Plant. The concession agreement specifically provided that our concession period started on 1 January 2013. The table below sets forth the key terms of the concession agreement:

| | |
|---|---|
| Grantor of concession rights | Luzhou Housing and Urban-rural Planning and Development Bureau* (瀘州市住房和城鄉規劃建設局) |

| | |
|---|---|
| Term of concession rights | 30 years, from 1 January 2013 to 31 December 2042 |
| Designated service area | Luzhou urban area (瀘州市城市總體規劃區), including Jiangyang District, Longmatan District and Naxi District. Such concession rights are automatically extended to any wastewater treatment facilities Xinglu Wastewater Treatment acquires, constructs or renovates within the designated service area and during the concession period. |
| Exclusivity | Xinglu Wastewater Treatment has the exclusive right to provide wastewater treatment services in the designated service area during the term of the concession agreement. |
| Xinglu Wastewater Treatment's rights | Xinglu Wastewater Treatment shall be entitled to:<br>• apply for adjustments of unit tariff price in the event Xinglu Wastewater Treatment cannot maintain reasonable profit in its wastewater treatment operations due to objective factors such as change of production costs, public policy or laws; and<br>• priority to extend the concession right upon its expiration if Xinglu Wastewater Treatment's performance during the concession period is satisfactory. |
| Initial unit prices | Pursuant to the price determining formula, which takes into consideration various factors including investment amount, reasonable return rate and estimated total treatment volume. |
| Termination | Neither party shall unilaterally terminate the concession agreement. |

In addition, pursuant to the concession agreement, Xinglu Wastewater Treatment entered into a Luzhou City Urban Wastewater Treatment Service Agreement (瀘州市城市生活污水處理服務協議書) with Luzhou Housing and Urban-rural Planning and Development Bureau* (瀘州市住房和城鄉規劃建設局) in May 2014, which provides further details of our rights and obligations in our wastewater treatment operations. The service agreement provides, among other things:

- the unit tariff price;
- the minimum treatment volume, which is set at a percentage of the designed capacity of the plant depending on the years in operation of the plant;

- tariff calculation mechanism, which for each year is the tariff unit price multiplied by the greater of (i) minimum treatment volume of that year or (ii) actual treatment volume, and payment schedule;

- quality requirement for wastewater delivered to Xinglu Wastewater Treatment's wastewater treatment plants;

- quality of discharged water after treatment; and

- quality monitoring and inspection procedures of waste water and discharged water, and remedial protocols.

In relation to Naxi Treatment Plant, the service agreement entered into between Xinglu Wastewater Treatment and Naxi District Government in August 2012 remains in effect after the execution of the concession agreement, in particularly the unit tariff price and minimum treatment volume as set forth in the service agreement. Such service agreement is in a similar format and has comparable rights and obligations as the service agreement entered into with Luzhou Housing and Urban-rural Planning and Development Bureau* (瀘州市住房和城鄉規劃建設局) in May 2014. Tariff for wastewater treatment services provided by Naxi Treatment Plant was paid to us by Luzhou Housing and Urban-rural Construction Bureau* (瀘州市住房和城鄉建設局) starting from 1 January 2016.

On 31 March 2016, we entered into a supplemental agreement with Luzhou Housing and Urban-rural Development Bureau* (瀘州市住房和城鄉建設局) to the aforementioned concession agreement in order to set out further details of the concession rights granted to us, including:

- a clarification that the concession rights granted to our subsidiary Xinglu Wastewater Treatment from the commencing date of the concession term also cover the wastewater treatment operations conducted by our other subsidiaries and branches;

- Luzhou Housing and Urban-rural Development Bureau* (瀘州市住房和城鄉建設局) confirms that we have the necessary concession right to conduct wastewater treatment operations and we are in compliance with relevant rules and regulations of the PRC, and there was no dispute or administrative penalty imposed on us as of the date of the supplemental agreement;

- further details on our responsibility to fund repair and maintenance of wastewater treatment facilities;

- a confirmation that the ownership of wastewater treatment facilities which we invested and constructed belongs to us during the concession period and will remain with us after the expiration of the concession period;

- a confirmation that we are permitted to raise capital for construction, operation and maintenance of wastewater treatment facilities by multiple means, provided that if we pledge the equipment, plant, buildings or land use rights as collateral for borrowings, the proceeds of such borrowings can only be used for the operation of the wastewater treatment facilities and the term of such borrowings shall not exceed the concession period; and

- the government authorities can temporarily take over the operation of the wastewater treatment plant under certain circumstances, such as force majeure, loss of state or public assets, severe damage to public interest or safety.

We are advised by our PRC legal adviser that the form and content of the concession agreement and supplemental agreement are in compliance with the provision of relevant laws and regulations, and valid and legally binding, pursuant to which we have been granted concession rights by the competent government authorities to conduct the wastewater treatment operations in the designated area from the date of the commencement of the concession period.

*Concession agreements in relation to our wastewater treatment operations in Xuyong County, Lu County, Hejiang County and Gulin County*

We acquired four wastewater treatment plants in Xuyong County, Lu County, Hejiang County and Gulin County, respectively. For each such acquisition, Xinglu Wastewater Treatment entered into a transfer agreement in connection with the acquisition of the plant and simultaneously entered into a wastewater treatment service agreement to cover the operation of the plant with the competent local government authorities. Each of the wastewater treatment service agreements has a provision that sets forth the grant of concession rights by the respective local government authorities to Xinglu Wastewater Treatment to conduct wastewater treatment operations in the respective designated service area and a provision that sets forth the concession period and commencement date. The wastewater treatment service agreement also typically sets forth details of Xinglu Wastewater Treatment's rights and obligations in substance and/or form substantially similar to the wastewater treatment service agreement for our operations in Luzhou urban area as described above.

To further clarify our relevant rights and obligations pursuant to the concession rights granted to us upon the acquisitions of the wastewater treatment plants, Xinglu Wastewater Treatment entered into concession agreements with the respective local government authorities in 2016. The concession agreements are substantially similar to the concession agreement entered into between Xinglu Wastewater Treatment and Luzhou Housing and Urban-rural Planning and Construction Bureau* (瀘州市住房和城鄉規劃建設局) in May 2014, as supplemented in March 2016 except that:

- The concession agreements with Lu County and Gulin County include a termination provision pursuant to which the relevant government authorities can temporarily take over the operation of the treatment plant and have the option to terminate the concession agreements if we (i) cannot maintain proper operations or cease operations without permission and cannot resume production within rectification period granted; (ii) make unauthorised transfer or lease of the concession rights to third parties or (iii) cause sever damage to public interest.

- The concession agreement with Xuyong County includes a termination provision pursuant to which the relevant government authorities can terminate the concession agreement if we make unauthorised transfer or lease of the concession rights to third parties.

- The concession agreement with Hejiang County government includes a provision with regard to ownership and transfer of facilities and a provision with regard to termination that are essentially the same as those of the tap water supply concession agreement with Hejiang County government. For more details, please refer to "— Concession Rights to Conduct Tap Water Supply Operations — Concession agreement in relation to our tap water supply operations in Hejiang County".

Such concession agreements also include a confirmation from the respective local government authorities that we have been in compliance with the relevant rules and regulations of the PRC in conducting the wastewater treatment operations since the date of the transfer agreement and there was no material dispute or government penalty in relation to our wastewater treatment operations imposed on us as of the date of the concession agreement.

The table below sets forth a summary of the relevant agreements:

| Name of the treatment plant | Local government authorities | Date of transfer agreements | Date of the service agreements | Date of concession agreements |
|---|---|---|---|---|
| Xuyong | the People's Government of Xuyong County (敘永縣人民政府) | 28 October 2011 | 31 October 2011 | 29 April 2016 |
| Lu County | Lu County Urban-rural Environment and Health Bureau* (瀘縣環境衛生管理局) | 1 February 2013 | 1 February 2013 | 27 April 2016 |
| Hejiang | the People's Government of Hejiang County (合江縣人民政府) | 28 April 2014 | 28 April 2014 | 29 April 2016 |
| Gulin | the People's Government of Guling County (古藺縣人民政府) | 28 July 2014 | 28 July 2014 | 31 March 2016 |

We are advised by the PRC legal adviser that we have acquired the necessary concession rights to conduct wastewater treatment operations from the date of the commencement of our operations in the designated service areas as the concession rights were (i) legally and validly transferred and granted to us in the respective service agreement on the date of such service agreement by the respective competent local government authorities; and (ii) further confirmed in the concession agreements subsequently entered into with the same competent local government authorities.

***Operations in the absence of concession agreements and acquisition of concession rights without going through the tender procedure***

We commenced tap water supply operations in Lu County and Hejiang County in January 2002 and September 2003, respectively. At the commencement of our operations, Lu County and Hejiang County government provided for our concession rights to conduct tap water supply operations in the designated service area in the form of meeting minutes and the share purchase agreement, respectively, without entering into concession agreements with us as required by the Concession Rights Measures.

The lack of concession agreements were primarily due to the uncertainty in the implementation of the Concession Rights Measures as to the process for negotiating and entering into concession agreement or the local government approval process for the execution of concession agreements.

In addition, the Concession Right Measures require the competent government authorities to grant concession rights to operate public utility business through public bidding processes. However, the relevant government authorities granted our Company and the relevant subsidiaries the concession rights without hosting the requisite public bidding process. However, the Concession Right Measures do not provide any specific penalty for not complying with the public bidding process requirement. Furthermore, certain of our concession agreements did not have all the requisite provisions as specified in the relevant Concession Right Measures promulgate in April 2015 until supplemented by the respective supplemental agreements.

With regard to the concession rights of water supply and wastewater treatment of our Company and the relevant subsidiaries, Luzhou Housing and Urban-rural Development Bureau* (瀘州市住房和城鄉建設局) issued a confirmation letter (the "**Luzhou HURD Confirmation**") to us on 16 June 2016. The confirmation letter stated that, notwithstanding the facts that (a) our operations in the absence of concession agreements, (b) the relevant government authorities granted the concession rights to our Company and subsidiaries without hosting requisite public bidding process:

- our Company and our relevant subsidiaries have entered into, and been performing under, legal and valid concession agreements and supplemental agreement with the competent authorities;

- our Company and the relevant subsidiaries have the legal concession rights to own the relevant plants and conduct water supply and wastewater treatment operations in the designated areas;

- we are in compliance with the relevant government rules and regulations and revenue generated pursuant to such concession agreements and supplemental agreement is legal; and

- Luzhou Housing and Urban-Rural Development Bureau has not imposed any penalty and will not impose any penalty in connection with our concession agreements and supplemental agreements.

In addition to the Luzhou HURD Confirmation, we have implemented and enhanced certain internal control measures as remedial measures to ensure future compliance with the relevant tender procedure requirements. For more details, please refer to "— Non-Compliance — Internal Control Measures Implemented — Internal control measures in relation to acquisition of state-owned assets, concession rights and other operation related licenses and permits". We have also signed the formal concession agreements with relevant local governments subsequently.

We are advised by the PRC Legal Adviser, based on the remedial measures taken by us and the Luzhou HURD Confirmation, (i) we have the valid concession rights to conduct tap water supply and wastewater treatment services in the designated areas from the date of the commencement of the concession period in such areas, (ii) we will not be subject to any penalty imposed by competent government authorities for our operations in Lu County and Hejiang County in the absence of concession agreements; (iii) revenue generated from our tap water supply and wastewater treatment operation are legal and (iv) Luzhou HURD and the officer interviewed are of competent authority to give the confirmation and it is unlikely that Luzhou HURD Confirmation will be challenged by higher government authorities, based on the relevant provisions of the Concession Rights Measures and an interview conducted with the competent official at Sichuan Province Housing and Urban-rural Development Bureau* (四川省住房和城鄉建設廳).

***Transfer of wastewater plants without going through the relevant procedures regarding the transfer of state-owned assets***

The Naxi Treatment Plant, Xuyong Treatment Plant, Lu County Treatment Plant, Hejiang Treatment Plant and Gulin Treatment Plant were all acquired from local governments and SOEs and were transferred directly to us pursuant to the relevant asset transfer agreements.

The asset transfers did not go through the relevant procedures regarding the transfer of state-owned assets.

Luzhou SASAC (瀘州市國有資產監督管理委員會) issued a confirmation letter to us on 7 June 2016 that (i) both transferor and transferee in each of such asset transfer are local governments and SOEs; (ii) the transfers were time-sensitive to ensure the uninterrupted operation of the wastewater treatment plants and (iii) such acquisitions and transfers were completed and the wastewater treatment plants are operating smoothly, Luzhou SASAC confirmed, after communication with the Sichuan SASAC, that such transactions (a) did not result in any losses of state-owned assets, (b) are valid and effective, and (c) will not be revoked or regarded as invalid.

As advised by our PRC legal adviser, it was the transferors' responsibility to report the transactions in accordance with the relevant laws and regulations. Based on the confirmation letter, such incidents will not have material and adverse impact on our ownership and operation of the relevant wastewater treatment plants. The PRC legal adviser further advises us that Luzhou SASAC is the competent government authority to issue the confirmation letter and the possibility that the confirmation letter to be rejected or revoked by Sichuan SASAC is remote.

**Construction of Plants and Pipelines**

***Application for Licenses, Permits and Approvals***

To commence construction project or consummate acquisition transactions, we need to obtain certain approvals and permits from the competent government authorities, including (i) land use rights permit, (ii) construction land planning permit, (iii) construction work planning permit, (iv) commencement of construction work permit and (v) certificate of inspection and acceptance. For more details, please refer to the section "Regulatory Environment". As part of the submitted application materials, we generally compile a report comprising feasibility studies and a tentative project budget plan, among other things. We implemented the management policies for licenses and permits to strengthen our compliance in relation to requisite licenses and permits. For more details, please refer to the section "— Non-compliance — Internal Control Measures Implemented".

***Project financing***

During the Track Record Period, we funded our BOO and TOO projects through a combination of internally generated fund, bank borrowings and capital contribution from our shareholders. 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. For more details, please refer to the section "Financial Information — Capital Expenditure".

***Construction of plants***

We generally outsource design and construction of tap water supply and wastewater treatment plants to qualified third party professional contractors. We hire qualified third party professionals, usually through a public bidding process, to design the project implementation plans. We also participate in the design and provide our requirement and input.

We generally engage principal third party contractors through a public tender, for the construction of the plants and the installation, testing and commissioning of the necessary equipment and systems for such plants according to the detailed project implementation plans. During the construction process, we supervise the contractors' construction work, principally through our project manager and we also engage third party professional supervision company. Raw materials for plant construction are generally provided by contractors. The raw materials cost is included in the construction fee and determined in accordance with public bidding materials submitted by the third party contractors.

Since we generally subcontract the construction for tap water supply and wastewater treatment plants to third party contractors, the gross profit margin is comparable with companies in the same sector which are primarily involved in the administration of the construction work, but not comparable with companies in the same sector which performed part of or all of the construction services on their own. The low margin expressed in terms of a percentage of the construction service consideration reflects the relatively low level of risk the Group is taking regarding the construction services according to the terms with its subcontractors. By subcontracting our construction work for tap water supply and wastewater treatment plants to third party contractors, we are exposed to default risk by our subcontractors under the relevant subcontracts. For more details, please refer to "Risk Factors — Risks Relating to our Business and Industry — We are exposed to default risk by our subcontractors under the relevant subcontracts".

*Construction projects for tap water supply plants*

To expand our water supply capacity, we undertook upgrade project of Beijiao Supply Plant Phase III during the Track Record Period, the designed capacity increased from 100,000 tons per day to 145,000 tons per day and we are in the process of applying for relevant license for the project. The table below sets forth a summary of our on-going construction projects for water supply plants as of the Latest Practicable Date:

| Plant Name | Nanjiao Supply Plant II Phase I | Qiancao Supply Plant II Phase I | Huangxi Supply Plant |
|---|---|---|---|
| Project type | BOO | BOO | BOO |
| Designated area | Luzhou urban area(1) | Luzhou urban area(1) | Hejiang county |
| Designed capacity (ton'000/day) | 50 | 95 | 95 |
| Total budget (RMB'000)(2) | 178,020 | 305,699 | 341,925 |
| Actual/expected construction commencement time | July 2014 | second half of 2016 | October 2017 |
| Current status(3) | Completed preliminary inspection stage and in trial operation stage starting from December 2016. | Under construction | At planning stage |
| Expected completion time(4) | June 2017 | first half of 2018 | June 2019 |
| Occurrence of Triggering Event(s) during the Track Record Period(6) | 1 | 1 | 1 |
| Triggering Events may be occurred after Track Record Period(5) | 1, 3, 4, 5, 7 | 1, 3, 4, 5, 7 | 1, 3, 4, 5, 7 |

| Plant Name | Nanjiao Supply Plant II Phase I | Qiancao Supply Plant II Phase I | Huangxi Supply Plant |
|---|---|---|---|
| Accumulated costs incurred as of 31 October 2016 (RMB'000) | 168,289 | 93,608 | 1,379[(6)] |
| Estimated costs to be incurred (RMB'000) | 9,729 | 212,091 | 340,546 |

*Notes:*

(1) Our on-going construction projects at Nanjiao Supply Plant II Phase I and Qiancao Supply Plant II Phase I are covered by the concession agreement which we entered into with Luzhou Planning and Development Bureau (瀘州市規劃建設局) on 28 June 2005 for our tap water supply operations in the Luzhou urban area, as well as the supplemental agreement to the concession agreement dated 31 March 2016. Our on-going project Huangxi Supply Plant at planning stage is covered by the concession agreement which we entered into with Hejiang County Government on 4 April 2016. For more details, please refer to the section "— Tender and Acquisition Procedures — Concession Rights to Conduct Tap Water Supply Operations — Concession agreement in relation to our tap water supply operations in Hejiang County".

(2) The total budget is based on our best estimation with information available to us at relevant time. Our actual expenses may differ from the budget.

(3) Our on-going projects include project under construction and projects at planning stage. Projects under construction refer to projects which are in the process of constructing the infrastructure or performing the upgrade before operation. Projects at planning stage refer to projects which are at the stage of preparation of construction or upgrade.

Following the completion of the construction of the facilities, we will test and inspect the facilities to ensure that they operate in accordance with relevant requirements and the terms of our project agreements. Commissioning the facilities involves a three stage process, which includes (i) a preliminary testing and inspection on construction of fundamental structure; (ii) trial operation of the facilities; and (iii) application for relevant approvals and licenses at the end of trial operation.

(4) Our estimated completion time includes our estimation of the time required to complete the trial operation stage and to obtain all relevant approvals and licenses. As some of the criteria for obtaining relevant approvals and licenses is beyond our control, our estimated completion time may be subject to change.

(5) For the details of the triggering events and its associated accounting treatment, please refer to section headed "Financial Information — Accounting Treatment of our Service Concession Arrangements — Summary of accounting treatment for our BOO and TOO Projects" of this Prospectus.

(6) The accumulated cost incurred as of 31 October 2016 represented the preparation cost before construction at the planning stage.

We plan to fund the remaining amount of Nanjiao Supply Plant II Phase I and Qiancao Supply Plant II Phase I from a combination of cash generated from operations and bank loans. In addition, we plan to use part of our proceeds from the Global Offering as funds for constructing Huangxi Supply Plant. The table below set forth expected timing for payments of such projects during respective period after Track Record Period:

| | Two months ended 31 December 2016 | Year ending 31 December 2017 | Year ending 31 December 2018 |
|---|---|---|---|
| | RMB'000 | RMB'000 | RMB'000 |
| Nanjiao Supply Plant II Phase I . . . | 6,400.0 | 2,663.2 | 665.8 |
| Qiancao Supply Plant II Phase I . . . | 7,000.0 | 82,036.3 | 99,066.2 |
| Huangxi Supply Plant . . . . . . . . . . . . | 120.0 | 34,375.8 | 233,755.7 |

*Note:*

Our projected payments for the relevant construction projects through 2018 is based on the best knowledge of our Directors and may differ from the total budget. We expect to make a payment of RMB23.99 million for Qiancao Supply Plant II Phase I and RMB72.29 million for Huangxi Supply Plant after 2018.

*Construction projects for wastewater treatment plants*

To expand our wastewater treatment capacity, we undertook several construction projects during the Track Record Period. Phase II of Erdaoxi Treatment Plant passed the inspection of fundamental structure and installation of facilities in December 2014, which increased its designed treatment capacity from 20,000 tons per day to 40,000 tons per day. It subsequently completed trial operation and received relevant approvals and licenses. Naxi Treatment Plant Phase II, Chengdong Treatment Plant and Chengnan Treatment Plant completed construction in April 2015, May 2016 and May 2016, respectively. These projects were under trial operation as of the Latest Practicable Date. In addition, the table below sets forth a summary of our on-going upgrade project for wastewater treatment plant as of the Latest Practicable Date:

| Facility Name | Yaerdang Treatment Plant (upgrade project) |
|---|---|
| Project type | BOO |
| Designated area | Luzhou urban area(1) |
| Designed capacity (ton'000/day) | 30 |
| Total budget (RMB'000)(2) | 146,761 |
| Actual/expected construction commencement time | March 2017 |
| Current status(3) | At planning stage |
| Expected completion time(4) | December 2017 |
| Occurrence of Triggering Event(s) during the Track Record Period(5) | N/A |

| Facility Name | Yaerdang Treatment Plant (upgrade project) |
|---|---|
| Triggering Events may be occurred after Track Record Period(5) | 1, 3, 4, 5, 7 |
| Accumulated costs incurred as of 31 October 2016 (RMB'000) | – |
| Estimated costs to be incurred (RMB'000) | 146,761 |

*Notes:*

(1) Our on-going upgrade project of Yaerdang Treatment Plant Upgrade is covered by the concession agreement which Xinglu Wastewater Treatment entered into with Luzhou Housing and Urban-rural Planning and Development Bureau* (瀘州市住房和城鄉規劃建設局) (currently known as Luzhou Housing and Urban-rural Development Bureau* 瀘州市住房和城鄉建設局) on 12 May 2014 for our operations in Luzhou urban area, as well as the supplemental agreement to the concession agreement which we entered into with Luzhou Housing and Urban-rural Development Bureau on 31 March 2016. For more details, please refer to the section "— Tender and Acquisition Procedures — Concession Rights to Conduct Wastewater Treatment Operations — Concession agreement in relation to our wastewater treatment operations in Luzhou urban area".

(2) The total budget is based on our best estimation with information available to us at relevant time. Our actual expenses may differ from the budget.

(3) Our on-going projects include project under construction and projects at planning stage. Projects under construction refer to projects which are in the process of constructing the infrastructure or performing the upgrade before operation. Projects at planning stage refer to projects which are at the stage of preparation of construction or upgrade.

Following the completion of the construction of the facilities, we will test and inspect the facilities to ensure that they operate in accordance with relevant requirements and the terms of our project agreements. Commissioning the facilities involves a three stage process, which includes (i) a preliminary testing and inspection on construction of fundamental structure and installation of facilities; (ii) trial operation of the facilities; and (iii) application for relevant approvals and licenses at the end of trial operation.

(4) Our estimated completion time includes our estimation of the time required to complete the trial operation stage and to obtain all relevant approvals and licenses. As some of the criteria for obtaining relevant approvals and licenses is beyond our control, our estimated completion time may be subject to change.

(5) For the details of the triggering events and its associated accounting treatment, please refer to section headed "Financial Information — Accounting Treatments of Our Service Concession Arrangements — Summary of accounting treatment for our BOO and TOO Projects" of this Prospectus.

We plan to use part of our proceeds from the Global Offering as funds for constructing the upgrade project of Yaerdang Treatment Plant. The table below set forth expected timing for payments of the upgrade project during respective period after Track Record Period:

| | Two months ended 31 December 2016 | Year ending 31 December 2017 | Year ending 31 December 2018 |
|---|---|---|---|
| | RMB'000 | RMB'000 | RMB'000 |
| Upgrade project of Yaerdang Treatment . . . . . . . . . . . . . . . . . . . . | 200.0 | 102,732.8 | 29,352.2 |

*Note:*

Our projected payments for the relevant construction projects through 2018 is based on the best knowledge of our Directors and may differ from the total budget. We expect to make a payment of RMB14.48 million for the upgrade project of Yaerdang Treatment Plant after 2018.

***Construction of water supply pipelines***

We distribute tap water to our end users through our proprietary underground water pipeline network. We undertake pipeline construction to connect new end users to our pipeline network and charge an installation fee for such construction services. For more details, please refer to "Financial Information — Description of Selected Line Items in Consolidated Statements of Profit or Loss and Other Comprehensive Income — Revenue — Tap water supply — Construction and upgrade services of tap water supply infrastructure". We also generate a small portion of revenue from maintenance services provided to end users for their pipeline and appliances.

*Arrangements with end users*

When non-residential premises owners or property developer of residential premises require our tap water supply service, or if government entities want to extend tap water supply pipeline network to a certain area as part of their urban planning, they first need to engage us as the principal contractor to construct pipelines for the premises and connect such pipelines to our pipeline network. We provide pipeline installation and connection services for such premises in exchange of an installation fee. The installation fee for non-residential premises is calculated based on standards set in relevant regulations of local government. The installation fee for residential premises is a fixed fee charged on each residential household pursuant to relevant regulations of the local government. To undertake construction project, we need to apply for certain government approval and permit. For more details, please refer to "Regulatory Environment".

We generally enter into a pipeline construction agreement with non-residential premises owners or property developer of residential premises. The agreement provides, among other things:

- Construction fee and payment method, which is usually in installments depending on construction progress or in lump sum after the construction is completed and the inspection is passed;

- Construction period, which usually ranges from a few days to months depending on the scale of construction;

- Quality requirements, which usually provide that the quality of the construction shall satisfy Water Pipeline Construction and Inspection Standards (給水排水管道工程施工及驗收規範) (GB50268-2008) and Water and Heating Pipeline Construction Quality Inspection Standards (建築給水排水及採暖工程施工品質驗收規範) (GB50242-2002) promulgated by Ministry of Construction (建設部);

- Warranty for repair, usually for a period of two years after the inspection of the project;

- Responsibility allocation in the event of accidents, which usually provides that the party mainly responsible for causing the accident shall bear the cost and responsibility; and

- Remedial for breach of obligations, usually in the form of penalty fees.

*Arrangements with subcontractors*

We perform small-scale installation works mainly through Sitong Engineer. We generally engage third party professional construction companies for pipeline and plant construction projects. We have implemented a subcontractor engagement criteria:

- for projects with a total budget of less than RMB500,000, we select subcontractors from a list of qualified contractors. We evaluate and update the list from time to time based on a number of parameters, including professional qualifications, quality of previous projects and construction efficiency and ability to communicate;

- for projects with a total budget between RMB500,000 to RMB2 million, we select subcontractors by inviting tender offers from selected subcontractors in a public tender process;

- for projects with a total budget of more than RMB2 million, we select subcontractors through a public tender offer and bidding process.

We have implemented detailed procedures for the public tender offer and bidding process. The technical department compiles the bidding materials and agenda, which is then reviewed by the general manager and the legal department before it is announced to the public. The bidding materials typical contain all essential information of the project, including:

- project specifications, such as budget, technical parameters, construction requirements and expected completion date;

- requirement for bidders, such as requisite certifications and professional qualification and relevant prior experience;

- a term sheet for project contracts; and

- bidding procedures, such as bidding time, place and fee, if any.

We typically enter into an agreement with a subcontractor we engage for a particular project. The essential commercial terms are generally consistent with those set forth in the term sheet, which is sometimes attached as an appendix to the agreement. The agreement with subcontractors sometimes also incorporate a standard form agreement published by relevant government authority or professional organisations, such as the Model Contract included in the 2007 Standard Construction Bidding Documents (標準施工招標文件2007版) published by China Planning Publish House. Such standard form agreement generally provides detailed technical parameters and procedures for construction. In addition, the agreement typically also provides the following project-specific terms:

- payment terms, which is usually based on stage of completion of the construction projects;
- construction period, which usually range from a few months to over a year depending on the scale of construction;
- further details on requirements of completion date for different stages, which is usually project specific; and
- detailed procedures in handling accidents on construction site and responsibility allocation, which generally provides that the party mainly responsible for causing the accident shall bear the cost and responsibility.

In general, if a subcontractor defaults or does not perform its obligations under the relevant subcontract, the potential consequences would include delay in our construction work, which could in turn negatively affect our tap water supply business. For more details, please refer to "Risk Factors — Risks Relating to our Business and Industry — We are exposed to default risk by our subcontractors under the relevant subcontracts". To mitigate the risks of default and non-performance, the standard form agreement typically provides the following terms:

- security for the subcontractor's performance of its obligations under the agreement, which is a portion of the offer price and must be paid before the agreement is executed;
- construction fee, which is usually paid in a discount and in installments based on stage of completion of the construction projects. The remaining amount of the construction fee will only be paid after the auditing of the construction project is completed;
- liquidated damages for delay of completion of the construction project, if such delay is attributable to the subcontractor; and
- our right to terminate the subcontract agreement if the subcontractor fails to complete the construction work in accordance with the milestone dates.

As such, we are of the view that the risk of the subcontractors' default and non-performance is remote. In the event that a subcontract agreement is terminated following the subcontractor's default or non-performance, it will be relatively easy for us to engage a substitute subcontractor within a short period of time and at a reasonable price.

In addition to contractual obligations we imposed on our subcontractors, we have also implemented certain monitoring mechanisms to ensure the quality of subcontractors' work during construction. The technical department and the installation department both participate in the review and approval of the blueprint of the project design before the construction is allowed to commence. During construction, we usually engage third party professional inspection companies to perform quality control. Upon completion of the construction, our technical department performs quality inspection before acknowledging the completion of the project. For each stage of the quality inspection, we have adopted the relevant national standards for technical inspection for water supply pipeline construction, including Construction and Acceptance Inspection Manual (給水排水管道工程施工及驗收規範) (GB50268-2008).

To ensure quality, the primary construction materials, such as pipelines, are generally procured by us and supplied to subcontractors.

*Non-compliance incidents in pipeline and plant constructions*

During the Track Record Period, there were instances where we commenced construction of pipelines or plants prior to obtaining all or some of the requisite licenses, permits and approvals. We are advised by the PRC legal adviser, and our Directors are of the view, that such non-compliance incidents will not have any material adverse effect on our operations and financial results. For more details, please refer to the section "— Non-compliance".

**Testing, Inspection and Trial Operation**

Upon completion of the construction of a plant, we perform tests to ensure that it operates in accordance with the terms of our construction agreement. Once we complete the testing, we give notice to the competent government authorities to inspect the plants. After passing the inspection by the relevant government authorities, we are required to apply to the relevant local government to obtain its approval for official commencement of operations.

**Pipeline Maintenance**

We have a pipeline network department which is in charge of pipeline repair and maintenance. We have implemented a routine inspection and maintenance procedures and schedules for our underground pipeline network, including:

- Inspection and maintenance schedule is updated on a monthly basis, based on information obtained from the GIS Pipeline Information System;

- Renovations of old pipelines are included in annual budget plan;

- We engage third party pipeline inspection companies from time to time to perform inspection for leakage;
- Routine discharge of water stored in fire hydrants and pipe ends to ensure water quality; and
- We set up water pressure checkpoints throughout the pipeline network to monitor water pressure.

We have also implemented water supply customer service manuals in relation to our customer service procedures and standards. We provide certain customer services to our tap water end users, including on-site repair and maintenance, on-site meter reading, a 24-hour hotline for scheduling on-site repair and free SMS notice service for temporary water shutdown or other events. We generally charge a standard fee for repair and maintenance works performed on the portion of pipeline owned by end users or related appliances. Such fees are recognised as revenue from construction and other services once the work is done.

We fund the routine repair and maintenance of our proprietary pipeline network.

## CUSTOMERS

Our customers for tap water supply services are commercial and non-commercial entities and individual households which are end users of the tap water we supplied. We are generally able to retain our customers once they were connected to our water supply pipeline network and use our water supply services, unless such customers relocate from their current premises. Our customers in installation services are usually commercial or government entities for which we connect the pipelines to our pipeline network. We deliver tap water directly to our end users and do not engage any distributors and we do not have any wholesale customers.

Our customers for wastewater treatment services are local governments who make tariff payment for wastewater treatment services pursuant to the relevant concession agreements. We are granted the exclusive rights to operate the wastewater treatment business in the respective service areas of our plants during the term of the concession periods.

Our customers for construction and upgrade services are local governments as grantors of concession rights in relation to the relevant tap water supply and wastewater treatment plants being constructed or upgraded.

Revenue generated from our top five customers was RMB185.2 million, RMB355.9 million, RMB603.5 million and RMB458.6 million in 2013, 2014 and 2015 and the ten months ended 31 October 2016, respectively, representing 45.2%, 56.6%, 66.2% and 63.6% of our total revenue during the same periods. Revenue generated from our largest customer was RMB85.3 million, RMB238.1 million, RMB340.0 million and RMB250.0 million in 2013, 2014 and 2015 and the ten months ended 31 October 2016, respectively, representing 20.8%, 37.9%, 37.3% and 34.7% of our total revenue during the same periods. Our top five customers for each of the financial years ended 31 December 2013, 2014 and 2015 were local government entities as Independent Third Parties in Luzhou Area. For the ten months ended 31 October 2016, four of our top five customers were government entities and one customer, Luzhou Jiangnan New

District Construction and Investment Co., Ltd.* (瀘州市江南新區建設投資有限責任公司), which was approximately 90.15% held by our Controlling Shareholder as of 31 October 2016, is our connected person. Luzhou Jiangnan New District Construction and Investment Co., Ltd.* (瀘州市江南新區建設投資有限責任公司) is mainly in the business of investment in infrastructures and property development of Qiancao area in Luzhou which demands our installation and maintenance services. For the ten months ended 31 October 2016, revenue from Luzhou Jiangnan New District Construction and Investment Co., Ltd.* (瀘州市江南新區建設投資有限責任公司) was RMB10.8 million representing 1.5% of our total revenue for the same period. We generated wastewater treatment revenue, construction revenue or installation revenue from our top five customers during the Track Record Period. We were generally able to establish long-term relationship with such local government entities due to the nature of our business. We generally send wastewater treatment tariff bills to the relevant local governments on a monthly or quarterly basis. We grant credit to certain local government customers with whom we have established long-term relationship. Generally, the credit term is within three months. Our customers for plant construction projects do not make any payment to us during the construction phases of the projects. Payments are generally made to us by inter-bank remittence. For more details on our trade receivable turnover day, please refer to "Financial Information — Description of Selected Consolidated Statements of Financial Position Items — Trade Receivables".

Save as disclosed above, none of our Directors, their associates or any Shareholder who, to the knowledge of our Directors owns more than 5% of our Company's share capital as of the Latest Practicable Date, had any interest in any of our five largest customers during the Track Record Period.

## SUPPLIERS

We manage supply procurement for our tap water supply and wastewater treatment operations at the group level. Prior to each fiscal year, the supply department of our Company will compile a list of qualified suppliers and submit it to the management for approval. In selecting qualified suppliers, the supply department evaluates a number of relevant factors, including the candidate suppliers' operational status, production capacity, price, supply capacity, technology capacity, management and after-sales services. Upon approval of the list, the supply department can procure supply needed from suppliers on the list for the fiscal year.

During the Track Record Period, we generally made payments on our trade payables within one month. For more details, please refer to "Financial Information — Description of Selected Consolidated Statements of Financial Position Items — Trade Payables". During the Track Record Period, we did not experience any material disruption to our tap water supply and wastewater treatment operations as a result of being unable to procure raw materials or equipment or services.

Due to the nature of our businesses, we generally do not engage in any active sales and marketing efforts in customer procurement.

**Construction-related Suppliers**

Our suppliers include contractors and designing companies we engage for large-scale pipeline and plant construction and local government entities such as Luzhou City Finance Bureau* (瀘州市財政局) to which we pay for land use rights obtained for the relevant plant construction projects. For more details, please refer to "— Project and Operation Management — Construction of Plants and Pipelines".

Cost incurred in relation to our top five suppliers for construction projects, all of whom were Independent Third Parties, was RMB42.0 million, RMB80.6 million, RMB233.2 million and RMB228.6 million in 2013, 2014 and 2015 and the ten months ended 31 October 2016, respectively, representing 41.6%, 30.7%, 47.8% and 67.8% of our total purchase amount from construction-related suppliers during the same periods. Cost incurred in relation to our largest supplier for construction projects was RMB14.9 million, RMB32.1 million, RMB72.4 million and RMB102.9 million in 2013, 2014 and 2015 and the ten months ended 31 October 2016, respectively, representing 14.8%, 12.2%, 14.8% and 30.5% of our total purchase amount from construction-related suppliers during the same periods. Our contracts with subcontractors and third party supervision companies for construction and upgrade services typically provide payment in installment and by stage of completion with credit terms that are generally within one month. We generally make payments to construction contractors based on stage of completion of the projects, through inter-bank remittance.

**Non-construction Related Suppliers**

In addition, during the Track Record Period, we procured tap water from two Independent Third Party tap water producers as supplement to our own tap water production in order to meet demand from our end users. For more details, please refer to the subsection "— Our Tap Water Supply Services — Tap Water Production Processes — Purchase of tap water from third parties". Moreover, we procure chemicals and other materials we use for water purification processes at our water supply plants. Our suppliers also include electricity companies which provide the electricity necessary to operate our plants and local governments such as Luzhou City Finance Bureau* (瀘州市財政局) to which we pay procurement fee for raw water we draw from local rivers or underground.

Cost incurred in relation to our top five non-construction related suppliers, all of whom were Independent Third Parties, was RMB51.7 million, RMB56.4 million, RMB60.5 million and RMB83.5 million in 2013, 2014 and 2015 and the ten months ended 31 October 2016, respectively, representing 51.7%, 62.6%, 67.0% and 63.2% of our total purchase amount from non-construction related supplier during the same periods. Cost incurred in relation to our largest non-contractor supplier was RMB39.5 million, RMB43.6 million, RMB44.6 million and RMB39.9 million in 2013, 2014 and 2015 and the ten months ended 31 October 2016, respectively, representing 39.5%, 48.3%, 49.4% and 30.2% of our total purchase amount from non-construction related suppliers during the same periods. Our top five non-construction related suppliers during the Track Record Period include our electricity supplier, third party tap water suppliers, pipe suppliers and chemical vendors. We generally make payment to such suppliers through interbank remittence. We generally established long-term relationship with our top five non-construction related suppliers during the Track Record Period.

For more details on our trade payables turnover days, please refer to "Financial Information — Description of Selected Consolidated Statements of Financial Position Items — Trade Payables".

None of our Directors, their associates or any Shareholder who, to the knowledge of our Directors, owns more than 5% of our Company's share capital as of the Latest Practicable Date, had any interest in any of our five largest suppliers during the Track Record Period.

## INVENTORY

Our inventory consisted primarily of raw materials, including pipes and other gadgets related to tap water supply and pipeline constructions. For more details, please refer to the section "Financial Information — Description of Selected Consolidated Statements of Financial Position Items — Inventories".

## RAW MATERIALS AND EQUIPMENT

During the Track Record Period, the main raw materials for our operations include raw water and chemicals we used at our tap water supply and wastewater treatment plants. Essential equipment we use at our tap water supply plants include water pump, agitator, grid machines, dehydrators and water decanters.

Our product cost also included cost for electricity used at our water supply and wastewater treatment plants. For more details, please refer to the section "Industry Overview — Price for Raw Materials".

## ENVIRONMENT AND SAFETY

### 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. For further details of these requirements, please refer to the section "Regulatory Environment".

The main environmental hazard involved in our operations is the sludge resulted from our wastewater treatment. The sludge contained mainly mud, sand and other micro-scale deposits in wastewater. We deliver or engage third party to deliver the sludge collected in our wastewater treatment to landfills designated by the relevant government authorities. We did not incur any significant cost in relation to environmental protection during the Track Record Period.

We did not have any material environment-related incident during the Track Record Period. We had not been penalised or subject to investigation by competent government authority for environment-related violations.

### Safety

Pursuant to relevant PRC laws and regulations, we are required to provide our employees 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 inspection and maintenance checks on our equipment to ensure they meet the applicable national or industrial standards in respect of their design, manufacturing, installation and use.

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 as of 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 penalty on us for incidents of non-compliance of any health and safety laws or regulations in China.

## RESEARCH AND DEVELOPMENT

Historically, we collaborated with various research institutions in the PRC to conduct researches on wastewater treatment and dredge disposal techniques during the Track Record Period. Going forward, our Directors plan to enhance our research and development efforts by assess our needs for research and development from time to time and allocate resources accordingly. We plan to focus our future research and development efforts on (i) improving our existing raw water purification and wastewater treatment technologies in order to increase our operational efficiency and adapt to increasing government quality requirement without incurring significant cost; and (ii) developing new techniques to be used in the new types of operations we plan to enter into, such as environment protection and sludge disposal.

## LICENSE AND PERMIT

The principal licenses and permits required to conduct our business in the PRC 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) and water intake permits (取水許可證) for operating our facilities.

As of the Latest Practicable Date, two of our plants, namely, the Hejiang Treatment Plant and the Xuyong Treatment Plant only obtained temporary wastewater discharge permits with the expiration date of April 2017 and June 2017, respectively. We only obtain temporary wastewater discharge permits for these two plants as the competent environment protection bureaus at such two counties plan to issue official wastewater discharge permits to us after Phase II construction for these plants are completed.

As advised by our PRC legal adviser as of the Latest Practicable Date all such temporary wastewater discharge permits were legal and valid.

The table below sets forth the details of our material licenses and permits as of the Latest Practicable Date:

| License/permit | Plant concerned | License/permit holder | Date of latest grant | Expiry date |
|---|---|---|---|---|
| Wastewater discharge permit | Lu County Treatment Plant | Xinglu Wastewater Treatment | 29 January 2015 | 28 January 2020 |
| Wastewater discharge permit | Yaerdang Treatment Plant | Xinglu Wastewater Treatment | 10 December 2014 | 9 December 2019 |
| Wastewater discharge permit | Erdaoxi Treatment Plant | Xinglu Wastewater Treatment | 21 November 2014 | 20 November 2019 |
| Wastewater discharge permit | Gulin Treatment Plant | Xinglu Wastewater Treatment | 23 May 2016 | 22 May 2017 |
| Wastewater discharge permit | Naxi Treatment Plant | Xinglu Wastewater Treatment | 10 December 2014 | 9 December 2019 |
| Temporary wastewater discharge permit | Hejiang Treatment Plant | Xinglu Wastewater Treatment | 28 April 2016 | 27 April 2017 |
| Temporary wastewater discharge permit | Xuyong Treatment Plant | Xinglu Wastewater Treatment | 6 June 2016 | 5 June 2017 |
| Health permit | Qiancao Supply Plant | our Company | 25 January 2016 | 29 March 2019 |
| Health permit | Beijiao Supply Plant | Beijiao Water | 25 August 2015 | 29 March 2019 |
| Health permit | Nanjiao Supply Plant | Nanjiao Water | 22 July 2015 | 6 April 2017 |
| Health permit | Jiangnan Supply Plant | Jiangnan Water | 10 April 2015 | 9 April 2019 |
| Health permit | Naxi Supply Plant | Naxi Water | 30 March 2015 | 29 March 2019 |
| Health permit | Hejiang Supply Plant | Hejiang Water | 13 September 2016 | 12 September 2020 |
| Operation certificate | Gulin Treatment Plant | Xinglu Wastewater Treatment | 1 November 2012 | 31 October 2017 |

| License/permit | Plant concerned | License/permit holder | Date of latest grant | Expiry date |
|---|---|---|---|---|
| Water Intake Permit | Qiancao Supply Plant | Xinglu Water | 1 January 2013 | 31 December 2017 |
| Water Intake Permit | Qiancao Supply Plant | Xinglu Water | 1 January 2013 | 31 December 2017 |
| Water Intake Permit | Qiancao Supply Plant | Xinglu Water | 1 January 2013 | 31 December 2017 |
| Water Intake Permit | Beijiao Supply Plant | Beijiao Water | 24 June 2013 | 31 December 2017 |
| Water Intake Permit | Nanjiao Supply Plant | Nanjiao Water | 24 June 2013 | 31 December 2017 |
| Water Intake Permit | Lantian Supply Plant | Jiangnan Water | 30 January 2015 | 30 June 2018 |
| Water Intake Permit | Guanshan Supply Plant | Naxi Water | 26 December 2016 | 31 December 2021 |
| Water Intake Permit | Hejiang Supply Plant | Hejiang Water | 12 October 2013 | 31 December 2017 |

In addition, to conduct pipeline and plant construction we need to obtain certain approvals and certificates, including (i) land use rights permit, (ii) construction land planning permit, (iii) construction work planning permit, (iv) commencement of construction work permit and (v) certificate for inspection and acceptance on completion of construction projects.

For more information regarding the laws and regulations that we are subject to in the PRC, please refer to the section "Regulatory Environment".

We are advised by our PRC counsel that during the Track Record Period and as of the Latest Practicable Date, except as disclosed in this prospectus, we had obtained, and there is no legal impediment for us to renew, all necessary license, permit, approval and registrations that are material for our business operations. For more details, please refer to the section "— Non-compliance".

## COMPETITION

We are an integrated municipal water service providers in Sichuan Province. China's municipal water service industry is highly fragmented and has relatively strong regional barriers. Due to historical reason as well as public interest concerns, local governments usually tend to choose local SOEs as the operators of municipal water facilities. As a result, SOEs have very strong presence in the municipal water service market. We have a dominant presence in Luzhou Area, with exclusive concession rights for operating our water supply and wastewater treatment facilities with the competent local governments and priority to renew such concession rights upon expiration. In our effort to expand our operation outside of Luzhou Area, we expect the main competition we face is from other SOEs. For more details, please refer to the section "Industry Overview".

## INSURANCE

We maintain certain property insurance to cover our tap water supply and wastewater treatment equipment. Our Directors believe that the type and amount of insurance is in line with the industry norm.

During the Track Record Period and as of the Latest Practicable Date, we had not experienced any interruptions, losses or damage to our facilities which would materially affect us. For details regarding our insurance related risks, please refer to the section "Risk Factors — Risks Relating to our Business and Industry — Our insurance coverage may not adequately cover the risks related to our business and operations".

## INTELLECTUAL PROPERTIES

As of the Latest Practicable Date, we held three registered trademark. We did not hold any patents. For more details regarding our trademark, please refer to the section "Statutory and General Information — 2. Further Information about our Business — B. Our intellectual property rights" in Appendix VI to this prospectus.

We were not aware of any material infringement of our intellectual property rights during the Track Record Period and as of the Latest Practicable Date, and we believe that we have taken reasonable measures to prevent infringement of our intellectual property rights. We are not aware of any pending or threatened claims against us or our subsidiaries relating to the infringement of intellectual property rights that we license from third parties.

## EMPLOYEES

As of 31 October 2016 we had 789 employees. The table below sets forth a breakdown of our employees by department as of 31 October 2016:

| Department | Number of employees | % |
|---|---|---|
| Administration | 74 | 9.38 |
| Production and operation | 502 | 63.63 |
| Construction management | 28 | 3.55 |
| Sales and marketing | 57 | 7.22 |
| Accounting | 30 | 3.80 |
| Technology | 46 | 5.83 |
| Financing | 5 | 0.63 |
| Others | 47 | 5.96 |
| Total | 789 | 100.00 |

As of 31 October 2016, substantially all our employees were located in Luzhou Area.

We maintain a number of social security funds for our employees, including funds for basic pension insurance, basic medical insurance, unemployment insurance, occupational injury insurance and maternity leave insurance and housing provident fund. During the Track Record Period and as of the Latest Practicable Date, we have been in compliance with relevant applicable social insurance and housing provident fund laws and regulations of the PRC. No material claims from our employees or third parties and no penalties from relevant government authority had been filed against us during the Track Record Period and as of the Latest Practicable Date.

Compensation for our employees includes basic wages, bonuses and other staff benefits. We also provide social insurance and other benefits to our employees, such as basic pension insurance, basic medical insurance, work injury insurance, unemployment insurance, maternity insurance, housing and personal accident insurance pursuant to PRC labour law, Labour Contract Law of the People's Republic of China and relevant requirements of the national and local governments. Basic pension insurance, basic medical insurance, unemployment insurance and housing funds are contributed by us and the employees at a certain proportion in accordance with the relevant local requirements. The work injury insurance and maternity insurance are paid by us. We review the performance of our employees annually, the results of which are applied in his or her monthly and annual bonus review and promotion appraisal. We also provide on-job training to our employees from time to time. Our staff costs was RMB60.9 million, RMB75.4 million, RMB83.7 million and RMB74.0 million, in 2013, 2014 and 2015 and the ten months ended 31 October 2016, respectively. We held regular and ad-hoc on-job training for our employees. Our human resource department manages and oversees such trainings and produces annual report which summarise results of employee training of the previous year and plans for the current year. Such annual report is submitted for the management to review and approve.

Our Directors confirm that during the Track Record Period and as of the Latest Practicable Date, we did not have any dispute with, or complaint from our employees that might materially and adversely affect our business operations.

## PROPERTIES

Our head office, which is leased by us, is located at Luzhou urban area. Our property interests principally comprise: (i) the land and buildings with respect to our tap water supply plants and wastewater treatment plants and (ii) the properties leased by us.

As of 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 of the Latest Practicable Date.

**Owned Properties**

As of the Latest Practicable Date, we had held land use rights for 75 parcels of granted land owned by the State Council and eight parcels of allotted land owned by the State Council, with an aggregate floor area of approximately 516,381.6 square meters and 161 buildings properties with an aggregate floor area of approximately 39,300 square meters.

During the Track Record Period, we did not obtain land use right certificates for approximately 417,640 square meters of land and building ownership certificates for buildings of aggregate floor area of approximately 20,008 square meters. For most of the properties, we occupied the properties prior to obtaining such certificates primarily in order to meet the project schedule set by the relevant local government and to ensure availability of water services as planned. We have subsequently obtained the relevant land use right and building ownership certificates from the competent government, except for one building of Sitong Engineering with a gross floor area of 663 square metres used for storage and workshop. As of the Latest Practicable Date, it has been removed and relocated to another property of Beijiao Water, for which we has obtained the land use right certificate and building ownership certificate, and no material relocation cost was incurred.

We are advised by our PRC legal advisers that failure to obtain the relevant land use right certificate and building ownership certificates will not have a material adverse effect on our operation and it is unlikely that we will be subject to administrative penalty by relevant government authorities on the basis of (i) written confirmations we received from relevant land, housing and city planning departments of local governments and (ii) the indemnity undertaking provided by the Controlling Shareholder.

**Safety Conditions**

During the Track Record Period up to the Latest Practicable Date, we have not been penalised by any government authority over safety conditions 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 the construction quality control tests 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 advisers and the indemnity undertaking provided by Xinglu Investment, 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 of 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.

**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 in relation to land use right certificates and building ownership certificates**

To ensure that we legally acquire land use right certificates and building ownership certificates in the future, we have prepared the following internal control measures:

(i) We updated our management standards for properties and lands in June 2016. Logistics department will take the lead to ensure that the corresponding management departments maintain an effective communication with the local government authorities and apply for land use right certificates and property ownership certificates in a timely manner for our lands and buildings. Our corresponding management departments are also responsible for maintaining our land use right certificates and property ownership certificates and carrying out follow-up actions for the application. Regular report will be prepared by the logistic department and corresponding management departments and submitted to the management for review.

(ii) The corresponding management departments and financial department shall check property right registration and modification on an annual basis, and report to our management.

(iii) A compliance team has been set up to lead and supervise the management of land use right certificates and building ownership certificates. The compliance team comprises the general manager as the team leader, the deputy general manager, the head of the corporate management department, the employee representative supervisor and the director of the financial department of our Company. The legal department shall provide legal assistance to the compliance team, and if necessary, external legal counsels may be engaged for legal opinions.

(iv) The compliance team will reject any new project that contains significant non-compliance in relation to relevant land use right certificates/building ownership certificates. The compliance team is responsible for the supervision of the implementation of internal control measures of relevant land use right certificates and building ownership certificate, and prepare reports or offer proposal in relation to our compliance situation. The relevant reports or proposal will be submitted to the board of directors for consideration and record. The compliance team will hold quarterly meeting and extraordinary meeting may be held on demand. The legal department of the Company will assist the compliance group to supervise the implementation of internal control measures and to ensure the continuous compliance.

**Leased Properties**

As of the Latest Practicable Date, we leased five buildings with an aggregate floor area of approximately 8,156 square meters and are primarily used for operation and offices.

## LEGAL PROCEEDINGS

As of 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.

## NON-COMPLIANCE

Except as disclosed hereunder and in the sub-section headed "— Properties — Owned Properties", 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 systemic non-compliance incidents during the Track Record Period and up to the Latest Practicable Date.

| No. | Responsible Company/unit | Historical Non-compliance | Reasons for the Non-compliance | Legal Consequences and Potential Maximum and Other Financial Liabilities | Rectification Actions Taken and Status as of the Latest Practicable Date | Potential Operational and Financial Impact |
|---|---|---|---|---|---|---|
| 1. | The Nanjiao Supply Plant II Phase I, the Beijiao Supply Plant Phase III, the Chengdong Treatment Plant, the Chengnan Treatment Plant Phase I, the Naxi Treatment Plant Phase II | We commenced construction of these plants before receiving the relevant construction permits. | In order to meet the construction schedule of relevant projects required by the local governments and to ensure availability of tap water supply services as planned, we commenced construction prior to receiving the construction permits for the relevant projects. | As advised by our PRC legal adviser, based on Article 12 of Administrative Measures for the Construction Licensing of Construction Projects (《建築工程施工許可管理辦法》) and Article 57 of Regulations on the Administration of Construction Project Quality (《建設工程質量管理條例》), if a company commences construction work without a construction permit, it may be ordered to cease construction by the competent authority and to rectify within a certain time limit. A fine of not less than 1% but not more than 2 % of the contractual consideration may be imposed on the construction company. Accordingly, the estimated maximum fine that may be imposed on our Group amounts to approximately RMB7.57 million in aggregate. | We have subsequently obtained all relevant construction permits.<br><br>We have obtained a written confirmation (the "**Joint Government Confirmation**"), titled Confirmations In Relation to Relevant Matters of Luzhou Xinglu Water (Group) Co., Ltd. (《關於瀘州市興瀘水務(集團)股份有限公司相關事宜的確認函》), on 16 June 2016 which was jointly issued by Luzhou SASAC, Luzhou DRC, Luzhou Municipal Urban-rural Planning Administration Bureau* (瀘州市城鄉規劃管理局), Luzhou Municipal Housing and Urban-Rural Development Bureau* (瀘州市住房和城鄉建設局) and Luzhou Municipal Environmental Protection Bureau* (瀘州市環境保護局). The Joint Government Confirmation confirming that the fact we commenced construction for certain completed or on-going pipeline and plant construction projects prior to obtaining all the requisite licenses and permits will not (i) have any negative impacts on our operation from 1 January 2013 to present; (ii) affect our occupation and use of the relevant pipelines and plants, (iii) lead to the removal or forfeiture of such assets, (iv) render revenue generated from such assets to be regarded as illegal or (v) result in any administrative penalty on us by the relevant government authorities.<br><br>We are advised by our PRC legal adviser that the government authorities that jointly issued the Joint Government Confirmation are the competent authorities of relevant areas in Luzhou City, have adequate authority and ranking to issue a confirmation in respect of the above non-compliance incidents. | Our PRC legal adviser advised that, given that the construction permits have been obtained subsequently and the relevant authorities have issued the Joint Government Confirmation, the risk that our Company or our subsidiaries would be subject to administrative penalties due to such non-compliance incidents is remote.<br><br>Our Directors are of the view that, based on the Joint Government Confirmation, the advice of our PRC legal adviser and the indemnity undertaking provided by the Controlling Shareholder, such non-compliance incidents will not materially and adversely affect our business operations or financial conditions. |

| No. | Responsible Company/unit | Historical Non-compliance | Reasons for the Non-compliance | Legal Consequences and Potential Maximum and Other Financial Liabilities | Rectification Actions Taken and Status as of the Latest Practicable Date | Potential Operational and Financial Impact |
|---|---|---|---|---|---|---|
| 2. | The Chengdong Treatment Plant, the Naxi Treatment Plant Phase II and the Chengnan Treatment Plant | We commenced construction before receiving the construction work planning permits. | In order to meet the construction schedule of relevant projects required by the local governments and to ensure availability of tap water supply services as planned, we commenced project construction prior to obtaining the relevant construction work planning permits. | Based on Article 64 of 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》), where an entity engages in construction without obtaining the construction work planning permit or without complying with the provisions in the said permit, it shall be ordered to cease construction by the department in charge of urban and rural planning under the local people's government at or above the county level; if measures for rectification can be adopted to eliminate the impact on the implementation of the plan, it shall be ordered to make rectification within a time limit and be fined not less than 5% but not more than 10% the cost of the construction project; otherwise, it shall be ordered to demolished the project within a time limit; if the project cannot be demolished, the project itself or the unit's illegal income shall be confiscated, and it may, in addition, be fined not more than 10% the cost of the construction project. Accordingly, the estimated maximum fine that may be imposed on our Group amounts to approximately RMB17.87 million in aggregate. | We have subsequently obtained all relevant construction planning certificates.<br><br>We have also obtained the Joint Government Confirmation.<br><br>As advised by our PRC legal adviser, each of abovementioned governmental departments, as competent departments of relevant area in administrative district in Luzhou City, have adequate authority and ranking to issue the relevant confirmations. | Our PRC legal adviser advised that, given that the construction work planning permits have been obtained subsequently and the relevant competent government authorities have issued the Joint Government Confirmation, the risk that our Company or our subsidiaries would be subject to administrative penalties due to such non-compliance incident is remote.<br><br>Our Directors are of the view that, based on the confirmations from relevant authorities, the advice of our PRC legal adviser and the indemnity undertaking provided by the Controlling Shareholder, such non-compliance incident will not materially and adversely affect our business operations or financial conditions and as a result, no provision has been made in our consolidated financial statements. |

| No. | Responsible Company/unit | Historical Non-compliance | Reasons for the Non-compliance | Legal Consequences and Potential Maximum and Other Financial Liabilities | Rectification Actions Taken and Status as of the Latest Practicable Date | Potential Operational and Financial Impact |
|---|---|---|---|---|---|---|
| 3. | The Nanjiao Supply Plant II Phase I, the Chengdong Treatment Plant and the Chengnan Treatment Plant | We commenced construction before receiving the land use right certificates. | In order to meet the construction schedule of relevant projects required by the local governments and to ensure availability of tap water supply services as planned, we commenced project construction prior to obtaining the relevant land use right certificates. | As advised by our PRC legal adviser, based on Article 76 of the Land Administration Law of the People's Republic of China (《中華人民共和國土地管理法》), if a company illegally occupies and uses a land without any approval or with approval obtained by fraudulent means, such company shall be ordered by the relevant authorities to return such land, the buildings and facilities constructed by such company shall be expropriated and fines may be imposed to such company. Based on Article 42 of the Regulations for the Implementation of the Land Administration Law of the People's Republic of China (《中華人民共和國土地管理法實施條例》), the amount of the fine shall be not more than RMB30 per square meter of the land illegally used. Accordingly, the estimated maximum fine that may be imposed on our Group amounts to approximately RMB5.3 million in aggregate. | We have subsequently obtained all relevant land use rights certificates.<br><br>We have also obtained the Joint Government Confirmation.<br><br>As advised by our PRC legal adviser, each of abovementioned governmental departments, as competent departments of relevant area in administrative district in Luzhou City, have adequate authority and ranking to issue the relevant confirmations. | Our PRC legal adviser advised that, given that the land use right certificates have been obtained subsequently and the relevant authorities have issued the Joint Government Confirmation, it is unlikely for us and our subsidiaries to be subject to administrative penalties due to such non-compliance incident.<br><br>Our Directors are of the view that, based on the Joint Government Confirmation from relevant authorities, the advice of our PRC legal adviser and the indemnity undertaking provided by the Controlling Shareholder, such non-compliance incidents will not materially and adversely affect our business operations or financial conditions. |

| No. | Responsible Company/unit | Historical Non-compliance | Reasons for the Non-compliance | Legal Consequences and Potential Maximum and Other Financial Liabilities | Rectification Actions Taken and Status as of the Latest Practicable Date | Potential Operational and Financial Impact |
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| 4. | Our Company | We conducted 268 completed and on-going pipeline construction projects for which we did not obtain all requisite government permits or approvals in relation to (i) the project, (ii) environmental protection, (iii) location selection, (iv) planning, (v) construction and/or (vi) completion inspection. | To meet the relevant local government's development plan and public demand that we complete such construction within a set time frame. | As advised by our PRC legal adviser that relevant rules and regulations have stipulated that the relevant penalty measures for commencement of construction before obtaining the requisite licenses and permits include: order to cease construction, demolition of illegal structures, and impose a fine based on the proportion of construction cost or at the maximum amount. In particular, for failing to complete relevant environmental impact assessment, a fine of not less than RMB50,000 but not more than RMB200,000 may be imposed; for failing to obtain relevant environmental protection inspection acceptance, a fine of not more than RMB100,000 may be imposed; for failing to obtain relevant construction permits or construction work planning permits, please refer to disclosure under sequences No. 1 or No. 2 of this table for the fines that may be imposed; for failing to obtain completion inspection approvals, a fine of not less than 2% but not more than 4% of the contractual consideration may be imposed; for failing to put the completion inspection on records, a fine of not less than RMB200,000 but not more than RMB500,000 may be imposed. Accordingly, the estimated maximum fine that may be imposed on our Group amounts to approximately RMB80.45 million in aggregate. | We have subsequently obtained the project approval and certificates for inspection and acceptance for completed projects. We are advised by the PRC legal adviser that we have fulfilled the relevant regulatory requirement.<br><br>We also obtained the Joint Government Confirmation.<br><br>As advised by our PRC legal adviser, each of abovementioned governmental departments, as competent departments of relevant area in administrative district in Luzhou City, have adequate authority and ranking to issue the relevant confirmations. | Our PRC legal adviser advised that, given that the project approval and certificates for inspection and acceptance for completed projects has been obtained subsequently and the relevant authorities have issued the Joint Government Confirmation, it is unlikely for us and our subsidiaries to be subject to administrative penalties due to such non-compliance incident.<br><br>Our PRC legal adviser advised that the relevant competent government authorities have issued the Joint Government Confirmation, the risk that our Company or our subsidiaries would be subject to administrative penalties due to such non-compliance incident is remote.<br><br>Our Directors are of the view that, based on the Joint Government Confirmation, the advice of our PRC legal adviser and the indemnity undertaking provided by the Controlling Shareholder, such non-compliance incident will not materially and adversely affect our business operations or financial conditions and as a result, no provision has been made in our consolidated financial statements. |

| No. | Responsible Company/unit | Historical Non-compliance | Reasons for the Non-compliance | Legal Consequences and Potential Maximum and Other Financial Liabilities | Rectification Actions Taken and Status as of the Latest Practicable Date | Potential Operational and Financial Impact |
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| 5. | Nanjiao Water (Nanjiao Supply Plant);<br><br>Beijiao Water (Beijiao Supply Plant and Beijiao Supply Plant Phase II);<br><br>Jiangnan Water (Lantian Supply Plant);<br><br>Hejiang Water (Hejiang Supply Plant);<br><br>Naxi Water (Guanshan Supply Plant); and<br><br>Xinglu Wastewater Treatment (Yaerdang Treatment Plant, Erdaoxi Treatment Plant, Naxi Treatment Plant, Xuyong Treatment Plant, Lu County Treatment Plant, Hejiang Treatment Plant and Gulin Treatment Plant) | We failed to obtain the relevant operation certificates in a timely manner or we did not renew operations certificates after the expiration of previous ones or the registered name of owner shown on the operation certificate was not consistent with the name of the actual owner. | 1. Xinglu Wastewater Treatment (Erdaoxi Treatment Plant) did not obtain the relevant operation certificates, and Xinglu Wastewater Treatment (Yaerdang Treatment Plant) and Hejiang Water (Hejiang Supply Plant) did not obtain the renewed operation certificates in time before the previous certificates expired, as Housing and Urban-Rural Development of Sichuan Province suspended processing applications for the operation certificates from 1 January 2013 to 18 December 2015 when it issued the Notice of Publishing the Guide for Operation Assessment of Water Supply and Drainage Enterprises (Chuanjianchengfa [2015] No. 886).<br><br>2. Xinglu Wastewater Treatment (Naxi Treatment Plant, Xuyong Treatment Plant, Lu County Treatment Plant and Hejiang Treatment Plant) did not obtain relevant operation certificates as we acquired such wastewater treatment plants and ancillary facilities from third parties, and the sellers failed to obtain the relevant operation certificates in accordance with the relevant laws and regulations. When we applied for such wastewater treatment plants and ancillary facilities around 2013, we were not able to obtain the operation certificates in time due to the reasons stated in the above Paragraph 1. | As advised by our PRC legal adviser, based on Article 6 of the Operation Regulation of Sichuan Province Water Supply and Drainage Enterprises if operation certificates for units undertaking urban water supply and drainage were not obtained, the water supply and drainage operation cannot be commenced. As advised by our PRC legal adviser, based on applicable PRC laws, no potential penalties would be imposed on our Group due to the failure of obtaining or renewing relevant operation certificates timely. | In accordance with the Notice Regarding the List of Enterprises Passing the Operation Assessment to Water Supply and Drainage Enterprises of Cities and Towns in Sichuan Province published on 22 June 2016 by Sichuan Province Housing and Urban-Rural Development Bureau* (四川省住房和城鄉建設廳), the Company (Qiancao Supply Plant), Beijiao Water, Jiangnan Water, Naxi Water, Nanjiao Water, Hejiang Water and Xinglu Wastewater Treatment (Yaerdang Treatment Plant, Erdaoxi Treatment Plant, Naxi Treatment Plant, Xuyong Treatment Plant, Lu County Treatment Plant and Hejiang Treatment Plant) passed the operation assessment with a valid term of 5 years (the "**Notice**").<br><br>We have obtained written confirmations from Luzhou Municipal Housing and Urban-Rural Development Bureau* (瀘州市住房和城鄉建設局) dated 16 June 2016, confirming that (1) such non-compliance incidents do not affect the legality and validity of the operations of the projects, cause such projects to be ordered for removal, and have an impact on our subsidiaries' concession rights or lead to unilateral modification, revocation, early termination or deemed invalidity of such concession rights; (2) our Company and its subsidiaries may operate relevant water supply and wastewater treatment business continuously in a lawful manner and the revenue generated from the urban water supply and wastewater treatment business is deemed legal; (3) our Company and its subsidiaries have never been and shall not be subject to administrative penalties imposed by the Municipal Bureau of Housing and Urban-Rural Development and the Municipal Urban Planning Bureau for such matter; (4) the Municipal Bureau of Housing and Urban-Rural Development has reported to and communicated with the Sichuan Province Housing and Urban-Rural Development Bureau* (四川省住房和城鄉建設廳) which does not have any disagreement with the opinions set out in the above confirmation from the Municipal Bureau of Housing and Urban-Rural Development. | Our PRC legal adviser advised that, (i) the Sichuan Province Housing and Urban-Rural Development Burau* (四川省住房和城鄉建設廳) has published the Notice, indicating all relevant plants have passed the operation assessment with a valid term of 5 years and (ii) Luzhou Municipal Housing and Urban-Rural Development Bureau* (瀘州市住房和城鄉建設局) issued a written confirmations on 16 June 2016 and 1 August 2016, indicating that the risk that our Company and its subsidiary would be imposed a penalty by Sichuan Province Housing and Urban-Rural Development Bureau* (四川省住房和城鄉建設廳) and Luzhou Municipal Housing and Urban-Rural Development Bureau* (瀘州市住房和城鄉建設局) for not obtaining water supply and drainage operation certificates or not to renew the said certificates after expiration or the registered name of owner shown on the operation certificate being not consistent with the name of the actual owner is remote. |

| No. | Responsible Company/unit | Historical Non-compliance | Reasons for the Non-compliance | Legal Consequences and Potential Maximum and Other Financial Liabilities | Rectification Actions Taken and Status as of the Latest Practicable Date | Potential Operational and Financial Impact |
|---|---|---|---|---|---|---|
| | | | 3. Nanjiao Water (Nanjiao Supply Plant), Beijiao Water (Beijiao Supply Plant and Beijiao Supply Plant Phase II), Jiangnan Water (Lantian Supply Plant, and Naxi Water (Guanshan Supply Plant) did not obtain the relevant operation certificates as we obtained the operation certificate for Xinglu Water on 12 July 2010 and due to the lack of sufficient knowledge about relevant laws and regulations, our then staff in charge was of the view that the requirement of obtaining operation certificates for our subsidiaries and their projects had been satisfied. Therefore, we did not obtain the additional operation certificates for our subsidiaries and their projects. Later on, we failed to renew the operation certificates in a timely manner due to the reasons mentioned in Paragraph 1 above.<br><br>4. The operation certificate of Xinglu Wastewater Treatment (Gulin Wastewater Treatment Plant) was registered in the name of Gulin County Wastewater Treatment Company Limited (the owner of Gulin Wastewater Treatment Plant prior to the acquisition by our Company). Afterward, the change in the registered owner's name on the operation certificate was not handled by the relevant competent government authority. | | We have obtained written confirmation from Luzhou Municipal Housing and Urban-Rural Development Bureau* (瀘州市住房和城鄉建設局) dated 1 August 2016, confirming that (1) there is inconsistency between the registered name of owner shown on the operation certificate of Gulin Treatment Plant and its actual owner and Xinglu Wastewater Treatment owns Gulin Treatment Plant legally, (2) Luzhou Municipal Housing and Urban-Rural Development Bureau* (瀘州市住房和城鄉建設局) and Sichuan Province Housing and Urban-Rural Development Bureau* (四川省住房和城鄉建設廳) will not process the procedure to change the name of owner shown on the operation certificate of Gulin Treatment Plant, (3) Gulin Treatment Plant may continue to operate its wastewater treatment business and Xinglu Wastewater Treatment has not been and shall not be subject to any administrative penalties, and (4) the Municipal Bureau of Housing and Urban-Rural Development has reported to and communicated with the Sichuan Province Housing and Urban-Rural Development Bureau* (四川省住房和城鄉建設廳) which does not have any disagreement with the opinions set out in the above confirmation from the Municipal Bureau of Housing and Urban-Rural Development.<br><br>Our PRC legal adviser has advised that, Lu Zhou Municipal Housing and Urban-Rural Development Bureau* (瀘州市住房和域鄉建設局) is the competent government authority to issue such confirmation. | Our Directors are of the view that, based on the confirmations from relevant authorities, the advice of our PRC legal adviser and the indemnity undertaking provided by the Controlling Shareholder, such non-compliance incidents will not materially and adversely affect our business operations or financial conditions. |

### Internal Control Measures Implemented

***Internal control measures in relation to acquisition of state-owned assets, concession rights and other operation related licenses and permits***

To ensure that we renew our existing concession rights and other operations related licenses and permits in a timely manner when they expire and properly acquire state-owned tap water supply or wastewater treatment plants and procure concession right for any new project we enter into, we implemented a number of internal control measures including:

(i) We enhanced the management policies for licenses and permits in June 2016. Pursuant to the policies, the corporate management department is responsible for the procurement and management of the concession rights and other licenses and permits, including the application, registration, safekeep and annual inspection of such licenses and permits.

(ii) We formed a five-member compliance team to lead and supervise the management of licenses and permits. The compliance team comprises the following member:

- Mr. Liao Xingyue (廖星樾先生), our executive Director and the general manager of our Company, as the team leader. For details of Mr. Liao's biography, please refer to the section headed "Directors, Supervisors and Senior Management" in this prospectus;

- Mr. Wang Junhua (王君華先生), our executive Director and the deputy general manager of our Company. For details of Mr. Wang's biography, please refer to the section headed "Directors, Supervisors and Senior Management" in this prospectus;

- Ms. Huang Mei (黃梅女士), our employee representative Supervisor. For details of Ms. Huang's biography, please refer to the section headed "Directors, Supervisors and Senior Management" in this prospectus;

- Ms. Wu Hui (吳慧女士), head of corporate management department of our Company. Ms. Wu obtained the bachelor's degree in law from Southwestern College of Political Science and Law* (西南政法學院) (now known as Southwestern University of Political Science and Law*) (西南政法大學) in July 1988. Ms. Wu has over 20 years' experience in legal affairs; and

- Mr. Ouyang Peng (歐陽鵬先生), the director of financial department of our Company, the deputy manager of Sitong Engineering. Mr. Ouyang obtained the bachelor's degree in economics from Sichuan Unite University* (四川聯合大學) (now known as Sichuan University* (四川大學)) in July 1998. Mr. Ouyang was accredit as senior accountant in June 2011. Mr. Ouyang has over 18 years' experience in finance and accounting.

The legal department shall provide legal opinions to the compliance team in connection with the acquisition of plants and the concession rights, and if necessary, external legal counsels may be engaged for legal opinions.

(iii) The compliance team will ensure that we properly obtain concession rights and other requisite licenses and permits and acquisitions are in line with the Interim Measures for the Management of the Transfer of the State-owned Property Right of Enterprises before the acquisition of plants. The compliance team will prepare reports or proposals in relation to our compliance of internal control measures and submit to the board of directors for consideration and record. The compliance team will convene quarterly meetings and extraordinary meetings can be convened when necessary. Meeting reports or suggestions will be submitted to the board of directors for review. The legal department shall assist the compliance team to supervise the implementation of internal control measures and ensures continuous compliance.

(iv) The compliance team can reject a project on non-compliance ground. Only new projects which have obtained approval from the compliance team are eligible for submission to the management or the board of directors for further discussion and consideration. The compliance team will examine the conditions and qualifications of Concession Rights Measures to confirm if a proposed project can meet regulatory requirements. Bidding or competitive negotiation of a project can only be started after approval by the compliance team.

(v) The corporate management department is responsible for annual inspection to make sure all required licenses and permits have been obtained and timely renewed.

***Internal control measures in relation to construction projects***

In order to ensure that our construction to be in compliance with the relevant rules and regulation in the future, we implemented the following internal control measures (the "**Construction Administrative Measures**"):

(i) The construction department is responsible for managing construction projects and obtaining all requisite licences and permits. At least one legal department staff will be assigned to each construction project from the preparation stage to participate in the management of such construction project.

(ii) The construction department is also responsible for communicating with government departments, including planning department and constructing department, learning about the urban planning schemes and the new project plans, and completing requisite formalities timely before the commencement of construction.

(iii) The construction department will report to the deputy general manager after the completion of relevant application procedures. The construction commencement or completion inspection are subjected to the approval and confirmation by the deputy general manager.

(iv) The staff of the construction department shall perform on-site supervision to constructions under progress every half-month. The deputy general manager shall perform random check to the permits for construction under progress and construction sites monthly.

(v) The compliance team will also lead and supervise the management of construction licenses and permits. The compliance team will review and reject any new construction project with material non-compliance incidents to prevent commencement of construction before obtaining the requisite approvals and permits. The compliance team is responsible for the supervision of the implementation of internal control measures in relation to all requisite licenses and permits. The compliance team will convene evaluation meetings every six months and special meetings quarterly. Extraordinary meetings can be held subject to requirements. The results of such meetings will be reported to the board of directors. The legal department will assist the compliance team to supervise the implementation of internal control measures and ensures continuous compliance.

**View of the Directors**

Considered that we have established a series of internal control measures to prevent such non-compliance incidents in the future, our Directors are of the view that, based on (i) the circumstances and reason of such non-compliance incidents, many of which were not completely within our control; (ii) the fact that we have not been subject to any administrative penalty; (iii) the extent and scope of rectification actions and the enhanced internal control measures we adopted; (iv) the government confirmations and the indemnity undertaking provided by our Controlling Shareholder; and (v) the training courses our Directors attended in relation to the obligations and duties as a listed company director required by Hong Kong laws (in particular the Listing Rules and other securities regulation laws and regulations) in June 2016, our enhanced internal control measures are adequate and effective, our Directors meet the standard of competence commensurate with their positions as directors of a listed issuer under Rules 3.08 and 3.09 of the Listing Rules, and that the non-compliance incidents described above will not affect the suitability of our Directors under Rules 3.08, 3.09 and 8.15 of the Listing Rules and the suitability of listing of the Company under Rule 8.04 of the Listing Rules.

## OUR CONTROLLING SHAREHOLDER

Luzhou Infrastructure, one of our Shareholders, is a non-wholly-owned subsidiary of our Controlling Shareholder, namely, Xinglu Investment. Therefore, Xinglu Investment is entitled to exercise or control the exercise of an aggregate of 89.08% of the voting right directly and indirectly at the general meeting of the Company as of the Latest Practicable Date. Immediately following completion of the Global Offering (assuming the Over-allotment Option is not exercised), Xinglu Investment will be entitled to exercise or control the exercise of approximately 66.81% of the voting right at the general meeting of the Company, and therefore, Xinglu Investment will continue to be the our Controlling Shareholder.

Xinglu Investment is a wholly stated-owned limited liability company established in the PRC on 28 January 2003. It is mainly engaged in management, investment and financing of state-owned assets. As at the Latest Practicable Date, the businesses conducted by the subsidiaries and associates of Xinglu Investment other than the Group included, among others, construction, real estate development, property management, property leasing, taxi transportation, garbage disposal, import and export, certain financial services, natural gas supply and power generation. Other than the Group, none of the other subsidiaries or associates of Xinglu Investment was engaged in the businesses of wastewater treatment or tap water supply as at the Latest Practicable Date.

### No Excluded Business

None of our Controlling Shareholder or any of our Directors or Supervisors is, as of the Latest Practicable Date, interested in any business, other than our Group, which, competes or is likely to compete, either directly or indirectly, with our Group's business and which requires disclosure pursuant to Rule 8.10 of the Listing Rules.

## NON-COMPETITION AGREEMENT

### Non-competition

Pursuant to the Non-competition Agreement, our Controlling Shareholder has irrevocably undertaken to our Company that, save for the circumstances as mentioned in "— Exceptions" below, it would not, and would procure that its controlled entities (as defined below) would not, during the restricted period set out below, directly or indirectly, either on its own account or in conjunction with any person, firm or company, carry on, participate, be interested, engaged in, acquire or hold (in each case whether as a shareholder, partner, agent, employee or otherwise) any business which is or may be in competition with the business of any member of our Group from time to time (the "**Non-competition Business**"). In addition, our Controlling Shareholder will exercise its voting rights in the relevant board meetings and shareholders' meetings and use its best efforts to procure its associated entities to comply with such requirements. Under the Non-competition Agreement, the controlled entities refer to each of the companies, enterprises or any other entities and their respective subsidiaries (excluding our Group) in which the Controlling Shareholder (i) can exercise or control the exercise of more than 50% of the equity interest, issued share capital or the voting power at general meetings (if applicable); (ii) is entitled to more than 50% of the after-tax profits; (iii) can control the composition of a majority of the board of directors; or (iv) takes actual control through agreements or any other arrangements. Associated entities refer to each of the companies, enterprises or any other entities and their respective subsidiaries (excluding our Group) in which the Controlling Shareholder has interest and which are not controlled entities. Pursuant to the Non-competition Agreement, the Non-competition Business refers to all business lines of our Group operated currently and to be operated from time to time in the future, which includes but not limited to tap water supply and wastewater treatment services.

The Non-competition Agreement is conditional upon:

(a) the Listing Committee of the Stock Exchange granting approval of the listing of all H Shares proposed to be issued by our Company pursuant to the Global Offering and permission to deal in such shares on the Main Board of the Stock Exchange;

(b) all conditions precedent under the Underwriting Agreements having been fulfilled (and/or the performance of any such conditions precedent having been waived by the Underwriters) and all obligations of the Underwriters under the Underwriting Agreements having become unconditional and neither of the Underwriting Agreements having been terminated pursuant to the terms and conditions therein; and

(c) the listing and trading of the H Shares on the Main Board of the Stock Exchange.

The "restricted period" stated in the Non-competition Agreement refers to the period during which our Controlling Shareholder undertakes not to compete with our Group in accordance with the provisions of the Non-competition Agreement until the occurrence of the earliest of: (i) the H Shares of our Company ceasing to be listed on the Main Board of the Stock Exchange; or (ii) in respect of the Controlling Shareholder, the Controlling Shareholder and its associates (excluding our Group) ceasing to be entitled to exercise or control the exercise of 30% or more in aggregate of the voting right at general meetings of our Company and having no control over the majority of our Board, or ceasing to be regarded as a controlling shareholder pursuant to the applicable laws and regulations, or ceasing to hold, directly or indirectly, any equity interest in our Company.

**Options for New Business Opportunities**

Our Controlling Shareholder has undertaken to procure that, during the restricted period, if any business opportunity ("**New Business Opportunity**") is offered to it or its controlled entities which falls within the scope of the Non-competition Business, our Controlling Shareholder will give notice or cause its controlled entities to give notice ("**Offer Notice**") in writing to our Company of such New Business Opportunity within seven (7) days, and will assist our Company to obtain such New Business Opportunity on the same terms as those offered to it or its controlled entities, or on more favorable terms or on terms acceptable to our Group. In addition, our Controlling Shareholder will exercise its voting rights in the relevant board meetings and shareholders' meetings and use its best efforts to procure its associated entities to pass on to us any New Business Opportunity.

**Exceptions**

Our Controlling Shareholder will be entitled to pursue such New Business Opportunity only if (i) the target business that such New Business Opportunity will invest into and does not compete, directly or indirectly, with the Non-Competition Business; (ii) our Controlling Shareholder or its controlled entities has given us the Offer Notice and provided the relevant documents and information to us in relation to the terms and conditions with respect to New Business Opportunity; (iii) subject to the approval of the independent non-executive Directors, our Company has confirmed that our Group does not intend to accept such New Business Opportunity and has informed our Controlling Shareholder and/or its controlled entities in writing; and (iv) the major terms and conditions on which our Controlling Shareholder and/or its controlled entities invest in, conduct, operate or participate in such New Business Opportunity subsequently will not be more favorable than those terms and conditions offered to our Company. In the event that our independent non-executive Directors decide to invest in, conduct, operate or participate in the New Business Opportunity, our Group will comply with relevant requirements under the Listing Rules (including Shareholders' approval requirements, if applicable).

In the event that our Board or general meeting of Shareholders (if applicable) resolves that it is appropriate for our Controlling Shareholder and/or its controlled entities (excluding our Group) and our Company (and/or its subsidiaries) to jointly invest in, conduct, operate and/or participate in the New Business Opportunity, and if our Company gives written invitation, our Controlling Shareholder and/or its controlled entities may together with our Company (and/or its subsidiaries), jointly invest in, conduct, operate and/or participate in the New Business Opportunity subject to the provisions of the Listing Rules and any requirement from the Stock Exchange (including but not limited to the obtaining of approval from our independent non-executive Directors and/or independent Shareholders and/or other approvals).

In addition, in any one of the following circumstances, our Controlling Shareholder and its controlled entities may hold or own business identical with or similar to the Non-competition Business, as well as the shares or any other securities of any company (the "**Listed Company**") listed on any stock exchange recognised by the laws of the relevant countries (including a stock exchange recognised by the laws and regulations of the PRC):

(a) the latest audited financial statements of the Listed Company prepared in accordance with the relevant accounting standards and systems (if the Listed Company has prepared unconsolidated financial statements and consolidated financial statements simultaneously then shall use the consolidated financial statements) show that the turnover of those business identical with or similar to Non-competition Business accounts for no more than 10% of the total consolidated turnover of the Listed Company, or the net assets of such business accounts for no more than 10% of the total consolidated assets of the Listed Company; or

(b) the total number of the shares held by our Controlling Shareholder and its controlled entities in aggregate does not exceed 5% of the total issued share capital of such Listed Company, and our Controlling Shareholder and its controlled entities are not entitled to appoint more than half of the directors of such Listed Company, and at any time there should exist at least another shareholder of the Listed Company whose shareholding in such Listed Company is higher than the total number of aggregate shares held by our Controlling Shareholder and its controlled entities.

**Pre-emptive Rights**

Our Controlling Shareholder has undertaken that, during the restricted period, if it or any of its controlled entities intends to transfer, sell, lease or license or otherwise transfer the New Business Opportunity to a third party, or permit the operation by a third party of the same, it shall notify us by written notice (the "**Selling Notice**") in advance. The Selling Notice shall attach the terms of the transfer, sale, lease or license and any information which may be reasonably required by our Company to make an investment decision. We shall reply to our Controlling Shareholder or its controlled entities within 30 days after receiving the Selling Notice. Our Controlling Shareholder has undertaken that until it or its controlled entities receives the reply from our Company, it or its controlled entities shall not notify any third party of the intention to transfer, sell, lease or license such New Business Opportunity or otherwise transfer or permit the operation of the same. If our Company notifies our Controlling Shareholder or its controlled entities in writing, not to exercise the pre-emptive rights (the "**Pre-emptive Rights**") or if our Company does not reply to our Controlling Shareholder or its controlled entities within the period described above, our Controlling Shareholder or its controlled entities are entitled to transfer, sell, lease or license the New Business Opportunity to a third party, or otherwise transfer, or permit the operation of the same pursuant to the terms stipulated in the Selling Notice. In addition, our Controlling Shareholder has undertaken to exercise its voting rights in the relevant board meetings and shareholders' meetings of its associated entities and use its best efforts to procure its granting of the Pre-emptive Rights to us.

Our independent non-executive Directors will be responsible for reviewing, considering and deciding whether or not to exercise the Pre-emptive Rights, provided that our independent non-executive Directors who are interested in the proposed New Business Opportunity and are related to the Pre-emptive Rights shall abstain from the decision-making process. When considering whether or not to exercise the Pre-emptive Rights, our independent non-executive Directors will consider certain factors, including, but not limited to, business scale, business prospect, estimated profitability, investment value and permits and approval requirements.

**Further Undertaking**

Our Controlling Shareholder has further undertaken that:

(a) upon the request of our independent non-executive Directors or auditors, it and/or its controlled entities will provide all information necessary for our independent non-executive Directors or auditors to review our Controlling Shareholder's and its associated entities (excluding our Group) compliance with and enforcement of the Non-competition Agreement;

(b) it and/or its controlled entities agrees that we disclose the decision made by our independent non-executive Directors related to the compliance with and enforcement of the Non-competition Agreement in our annual report, interim report or by way of announcement according to the Listing Rules; and

(c) it and/or its controlled entities will make a declaration to our Company, our independent non-executive Directors and/or auditors semiannually regarding their compliance with the Non-competition Agreement for us to disclose in our annual report, interim report or by way of announcement according to the Listing Rules.

## INDEPENDENCE FROM OUR CONTROLLING SHAREHOLDER

We believe that our Group is capable of carrying on its business independently of our Controlling Shareholder and its associates after the Global Offering taking into account the following factors.

### Management Independence

Our Company maintains an independent Board to oversee our Group's business. Our Board is responsible for contemplating and approving business plans and strategies of the Group, monitoring the implementation of business plans and strategies and supervising the management of our Group. Our Group has an independent management team, which is led by a team of senior management with extensive experience and expertise in our business, to implement our Group's business plans and strategies in the daily operations.

Our Board comprised nine Directors, including three executive Directors, three non-executive Directors and three independent non-executive Directors. Three of our Directors, namely Mr. Zhang Qi, Mr. Chen Bing and Mr. Yang Ronggui, held directorship and/or senior management positions with Xinglu Investment or companies owned by it as at the Latest Practicable Date.

Set out below is a table summarising the positions held by our management team members, including our above mentioned Directors, and their positions with Xinglu Investment or companies owned by it:

| Name | Position with our Company | Position with Xinglu Investment or companies owned by it |
|---|---|---|
| **Directors** | | |
| Mr. Zhang Qi | Chairman and executive Director | A director of Xinglu Investment |
| Mr. Chen Bing | Non-executive Director | The deputy general manager of Xinglu Investment, a director of Luzhou Infrastructure, the chairman of the board and legal representative of Luzhou Rural Development, Investment and Contraction Co., Ltd.* (瀘州市農村開發投資建設有限公司) and a director of Luzhou City Chengnan Construction Investment Co., Ltd.* (瀘州市城南建設投資有限公司) |
| Mr. Yang Ronggui | Non-executive Director | The chief legal consultant of Xinglu Investment, a director of Luzhou Infrastructure, Luzhou Xinglu Financing Guarantee Co., Ltd.* (瀘州市興瀘融資擔保有限公司), Luzhou Xinglu Agriculture Financing Secured Co., Ltd. (瀘州市興瀘農業融資擔保有限公司), Luzhou Jiangyang District Xinglu Hongyang Petty Loan Co., Ltd.* (瀘州市江陽區興瀘鴻陽小額貸款有限公司) and Luzhou Xinglu Environmental Protection Development Co., Ltd.* (瀘州市興瀘環保發展有限公司) |
| **Senior Management** | | |
| Mr. Wang Minghua | Deputy general manager | A director of Luzhou Infrastructure |

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 Xinglu Investment or companies owned by it.

Our Directors believe our Company is capable of managing its business independently of Xinglu Investment after the Listing for the following reasons:

- each of our Directors, Supervisors and members of the senior management were appointed in accordance with the Articles of Association and relevant PRC laws and regulation. Our management personnel have clear reporting lines and the management team reports to our Board ultimately and our Board supervises and monitors the performance of our management team generally through the regular reports made by our general manager to our Board;
- as we have an independent senior management team to carry out the business decisions of the Group independently, there are sufficient non-overlapping Directors who are independent from Xinglu Investment and possess relevant experience to ensure that our Board is able to perform its functions properly;
- none of our Directors or Supervisors or members of the senior management has any shareholding interest in Xinglu Investment;
- each of our Directors is aware of his/her fiduciary duties as a Director of our Company which require, among other things, that he/she acts for the benefit and in the best interests of our Company and does not allow any conflict between his/her duties as a Director and his/her personal interest; and
- in the event that there is a potential conflict of interest arising out of any transaction to be entered into between our Group and our Directors or their respective associates, the interested Director(s) shall abstain from voting at the relevant board meetings of the Company in respect of such transactions and shall not be counted in the quorum.

**Operational Independence**

We have established our own organisational structure comprised of individual departments, each with specific areas of responsibilities. We have independent access to, among others, technical consultants, suppliers or materials and other resources required for our Group's business. We have also established various internal controls procedures to facilitate the effective operation of our business.

Our Directors confirmed that we will not enter into any other transactions of similar nature with the connected persons and their associates after the Listing that will affect the operational independence. We believe that our Group is capable of carrying on its business independently of the our Controlling Shareholder and its associates and we have the ability to formulate and implement operational decision independently.

Accordingly, our Directors consider that our Group's business is completely independent from that of our Controlling Shareholder or other entities beneficially owned or controlled by our Controlling Shareholder.

**Financial Independence**

We have an accounting and financial system and department, comprises independent accounting and financial staff, independent of our Controlling Shareholder and makes financial decisions according to our Group's own business needs. Our Group's accounting and finance functions are independent of our Controlling Shareholder.

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 Shareholder or its respective associates; and had not provided any outstanding securities, loans or any other forms of financial assistance to our Controlling Shareholder or its respective associates. Therefore, our Directors believe that our financial operation is independent from our Controlling Shareholder.

Our Group (i) has been providing tap water supply services to our Controlling Shareholder and its subsidiaries, (ii) has been providing installation and maintenance services in our ordinary and usual course of business to Luzhou Xinglu Jutai Real Estate Co., Ltd.* (瀘州興瀘居泰房地產有限公司) ("**Jutai Real Estate**"), (iii) has been occupying certain premises in Luzhou City, Sichuan Province, the PRC owned by Luzhou City Xinglu Assets Management Co., Ltd.* (瀘州市興瀘資產管理有限公司) ("**Xinglu Assets Management**"), and (iv) has been receiving property management services from Luzhou Xinglu Property Management Co., Ltd.* (瀘州興瀘物業管理有限公司) ("**Xinglu Property Management**"). Jutai Real Estate, Xinglu Assets Management and Xinglu Property Management are associates of Xinglu Investment, our Controlling Shareholder, and therefore, Jutai Real Estate, Xinglu Assets Management and Xinglu Property Management are connected persons of our Company. Accordingly, such transactions between our Group and Jutai Real Estate and/or Xinglu Assets Management and/or Xinglu Property Management will constitute continuing connected transactions for our Company upon Listing pursuant to Chapter 14A of the Listing Rules. Details of such continuing connected transactions are set out below.

## EXEMPT CONTINUING CONNECTED TRANSACTIONS

### Provision of Tap Water Supply Services

We have been providing tap water supply services in our ordinary and usual course of business to the public in Luzhou Area, Sichuan Province, which also includes our connected persons (including our Controlling Shareholder and its subsidiaries). We expect that we will continue to provide tap water supply services to our connected persons upon Listing, which will constitute continuing connected transactions for us under Chapter 14A of the Listing Rules.

The tap water supply services provided by us to our connected persons are conducted in the ordinary and usual course of our business and on normal commercial terms that are comparable to or no more favorable than those offered to Independent Third Parties. Therefore, these continuing connected transactions, namely selling of consumer goods and services under 14A.97 of the Listing Rules, will be exempt from reporting, annual review, announcement and the independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

### Provision of Installation and Maintenance Services

We have been providing installation and maintenance services in our ordinary and usual course of business to Jutai Real Estate and on normal commercial terms. It is likely that Jutai Real Estate will continue to use the above services from us upon Listing, which will constitute continuing connected transactions for us under the Listing Rules.

The installation and maintenance services provided by us to Jutai Real Estate are conducted in our ordinary and usual course of business and on normal commercial terms that are comparable to or no more favorable than those offered to Independent Third Parties. As our Directors currently expect the value of the transactions amount on an annual basis will be less than HK$3,000,000, the transactions under the provision of installation and maintenance services to Jutai Real Estate constitute *de minimis* continuing connected transactions under

Rule 14A.76 of the Listing Rules, and thus will be exempt from the reporting, annual review, disclosure and independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

**Property Leasing Agreements**

***Company Property Leasing Agreement***

Our Company has been using and occupying the first, fifth to ninth floors of a property situated at 16 Baizi Road, Jiangyang District, Luzhou City, Sichuan Province, the PRC, with a gross floor area of approximately 5,989 square meters as our office pursuant to a property leasing agreement ("**Company Property Leasing Agreement**") dated 30 June 2014 between Xinglu Assets Management and our Company for the use and occupation of the said property at nil consideration. The term of the Company Property Leasing Agreement is from 30 June 2014 to 29 June 2017. As at the Latest Practicable Date, the office building of our Company is under construction and is expected to be put into use by around the end of 2017. Upon completion of construction and put into use of such office building, our Company will cease to use or occupy the said property leased from Xinglu Assets Management.

Pursuant to the Company Property Leasing Agreement, our Company did not pay any fees to Xinglu Assets Management for the use and occupation of the said property since 30 June 2014 and up to the Latest Practicable Date. Our Company will not have to pay any fees for the use and occupation of the said property after the Listing and up to the end of the term of the Company Property Leasing Agreement. Our Company has the priority right to lease the said property under the same terms upon the expiry of the Company Property Leasing Agreement.

Given that the consideration under the Company Property Leasing Agreement is nil, and thus each of the applicable percentage ratios under Chapter 14A of the Listing Rules in respect of the transaction thereunder is less than 0.1%, such transaction constitute *de minimis* continuing connected transaction under Rule 14A.76 of the Listing Rules. Therefore, such transaction will be exempt from the reporting, annual review, announcement and the independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

***Nanjiao Water Property Leasing Agreement***

Nanjiao Water has been using and occupying the second floor of Nanjiao Supply Plant, Wayaoba, Jiangyang District, Luzhou City, Sichuan Province, the PRC, with a gross floor area of approximately 520 square meters as Nanjiao Water's office pursuant to a property leasing agreement ("**Nanjiao Water Property Leasing Agreement**") dated 13 May 2016 between Xinglu Assets Management and Nanjiao Water for a monthly rental of RMB2,600. The term of the Nanjiao Water Property Leasing Agreement is from 1 June 2016 to 30 May 2017. As at the Latest Practicable Date, the office building of Nanjiao Water has been constructed and is under office decoration, upon completion of which and put into use of the office building, Nanjiao Water will cease to use or occupy the said property leased from Xinglu Assets Management.

Given that the yearly rental under the Nanjiao Water Property Leasing Agreement is expected to be RMB31,200 and thus the applicable percentage ratios under Chapter 14A of the Listing Rules in respect of the transaction thereunder is less than 0.1%, such transaction constitute *de minimis* continuing connected transaction under Rule 14A.76 of the Listing Rules, and thus will be exempt from the reporting, annual review, announcement and the independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

## NON-EXEMPT CONTINUING CONNECTED TRANSACTION

### Property Management Agreement

#### *Background of and reasons for the transaction*

Xinglu Property Management is specialised in property management and has been providing efficient property management service at favourable price to our Group since April 2011. Our Directors are of the view that it is in the best interest of our Group and our Shareholders for our Group to continue to use Xinglu Property Management to manage certain of our properties after Listing. Accordingly, Xinglu Wastewater Treatment, a subsidiary of our Company, and Xinglu Property Management entered into a property management agreement ("**Property Management Agreement**") on 25 December 2015 for a term of two years from 1 January 2016 to 31 December 2017, pursuant to which Xinglu Property Management agreed to provide property management services to the following seven wastewater treatment plants owned by Xinglu Wastewater Treatment: Erdaoxi Wastewater Treatment Plant* (二道溪污水處理廠), Naxi Wastewater Treatment Plant* (納溪污水處理廠), Lu County Treatment Plant* (瀘縣污水處理廠), Gulin Wastewater Treatment Plant* (古藺污水處理廠), Xuyong Treatment Plant* (敘永污水處理廠), Hejiang Treatment Plant* (合江污水處理廠) and the Yaerdang Treatment Plant* (鴨兒凼污水處理廠) (the "**Managed Properties**").

#### *Principal terms and pricing basis*

The principal terms and pricing basis as set out in the Property Management Agreement are as follows:

- principal terms: the property management services include daily maintenance and cleaning of public areas; registration and management of external vehicles and bulky items and visitors; hygiene maintenance in public area; plant maintenance in public green areas; and

- pricing basis: the fixed amount of property management fees for any given year were determined based on (i) the service scope; (ii) the area covered; (iii) number of staff necessary to provide services; and (iv) wages of the staff. The property management fees were determined on arm's length negotiation, by reference to prevailing market rates and on normal commercial terms.

***Historical figures***

For each of the years ended 31 December 2013, 2014, 2015 and 2016, the aggregated management fees paid by our Group to Xinglu Property Management for managing the Managed Properties were approximately RMB1,259,000, RMB1,906,000, RMB2,802,000 and RMB3,215,000, respectively.

***Annual cap***

Our Directors estimate the approximate aggregate annual cap for the property management fees payable from our Group to Xinglu Property Management under the Property Management Agreement for managing the Managed Properties for the financial year ending 31 December 2017 will be RMB3.2 million.

The above annual cap is estimated by our Directors based on (i) historical transaction values set out above, and (ii) estimated annual growth in the average annual wages of labour by taking into consideration of the recent years' growth and inflation in Luzhou Area.

***Listing Rules implications***

Each of the applicable percentage ratios under Chapter 14A of the Listing Rule is, on an annual basis, more than 0.1% and less than 5%. By virtue of Rule 14A.76(2) of the Listing Rules, the transaction contemplated under the Property Management Agreement will constitute continuing connected transaction for our Group subject to reporting, annual review and announcement requirements but exempt from the independent Shareholders' approval requirements stipulated under the Listing Rules.

***Confirmation from our Directors***

Our Directors (including our independent non-executive Directors) are of the view that the above non-exempt continuing connected transaction has been and will be entered into during our ordinary and usual course of business, on normal commercial terms or better, and the terms of the Property Management Agreement and the proposed annual caps for this transaction are fair and reasonable and in the interests of our Company and our Shareholders as a whole.

***Confirmation from the Sole Sponsor***

The Sole Sponsor is of the view that the above non-exempt continuing connected transaction has been and will be entered into in the ordinary and usual course of business of our Group and on normal commercial terms or better, and that the terms of the Property Management Agreement and the proposed annual caps for this transaction are fair and reasonable and in the interests of our Company and our Shareholders as a whole.

***Waiver from strict compliance with Listing Rules in relation to non-exempt continuing connected transaction***

As the said non-exempt continuing connected transaction has been disclosed in this prospectus and will continue after the Listing on a recurring basis, our Directors consider that strict compliance with the announcement requirements under the Listing Rules would be unnecessary and unduly burdensome.

Accordingly, we have applied to the Stock Exchange for, and the Stock Exchange has granted, a waiver to us under Rule 14A.105 of the Listing Rules from compliance with the announcement requirement under Chapter 14A of the Listing Rules in respect of such non-exempt continuing connected transaction (the "**Transaction**") subject to the conditions that:

(i) the Sole Sponsor and our Directors (including our independent non-executive Directors) are of the view that (a) the Transaction is entered into on normal commercial terms, in the ordinary and usual course of business of our Group, and in the interests of the Shareholders of our Company as a whole; and (b) the proposed annual cap for the Transaction is fair and reasonable and in the interests of the Shareholders of our Company as a whole; and

(ii) apart from the announcement requirement of which the waiver is sought, our Company will comply with the relevant requirements under Chapter 14A of the Listing Rules.

If any terms of the Transaction are altered or if our Company enters into any new agreements with any connected persons (within the meaning of the Listing Rules) in the future, our Company must fully comply with the relevant requirements under Chapter 14A of the Listing Rules unless our Company applies for and obtains a separate waiver from the Stock Exchange.

In addition, we will re-comply with relevant Listing Rules if the annual cap set out above is exceeded, or when the relevant agreement is renewed or when there is a material change to the terms of the relevant agreement.

In the event of any future amendments to the Listing Rules imposing more stringent requirements than those applicable as of the Latest Practicable Date on the non-exempt continuing connected transaction, our Company will take immediate steps to ensure compliance with such new requirements within a reasonable time.

## SUMMARY INFORMATION OF OUR DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

The following table set forth information regarding our current Directors, Supervisors and senior management. Our Directors, Supervisors and senior management all meet the qualification requirements under relevant PRC laws and regulations and the Listing Rules for their respective positions except for the waiver as to management presence in relation to our executive Director in the section headed "Waiver from Strict Compliance with the Listing Rules and Exemption from Strict Compliance with the Companies (Winding Up and Miscellaneous Provisions) Ordinance" in this prospectus.

| Name | Age | Position in our Company | Responsibilities | Appointment date of current term | Time of joining our Group |
|---|---|---|---|---|---|
| **Directors** | | | | | |
| Mr. Zhang Qi (張歧先生) . . . . | 43 | Chairman and executive Director | Responsible for the overall operation of our Board, strategic development and planning and major decision making of our Group | December 2015 | February 1992 |
| Mr. Liao Xingyue (廖星樾先生) . . | 35 | Executive Director and general manager | Responsible for our Group's daily operation matters | December 2015 | December 2015 |
| Mr. Wang Junhua (王君華先生) . . | 52 | Executive Director and deputy general manager | Responsible for the management of water supply service and project constructions | December 2015 | April 2001 |
| Mr. Chen Bing (陳兵先生) . . . . | 46 | Non-executive Director | Responsible for the formulation of corporate and business strategies and decision-making of significant events | December 2015 | December 2012 |
| Mr. Yang Ronggui (楊榮貴先生) . . | 55 | Non-executive Director | Same as above | December 2015 | May 2007 |
| Ms. Xu Yan (徐燕女士) . . . . | 51 | Non-executive Director | Same as above | December 2015 | December 2014 |
| Mr. Gu Ming'an (辜明安先生) . . | 50 | Independent non-executive Director | Supervising and providing independent judgement to our Board | June 2016* | the Listing Date |

| Name | Age | Position in our Company | Responsibilities | Appointment date of current term | Time of joining our Group |
|---|---|---|---|---|---|
| Mr. Lin Bing (林兵先生) . . . . | 48 | Independent non-executive Director | Same as above | June 2016* | the Listing Date |
| Mr. Cheng Hok Kai, Frederick (鄭學啟先生) . . | 52 | Independent non-executive Director | Same as above | June 2016* | the Listing Date |
| **Supervisors** | | | | | |
| Ms. Qu Mei (屈梅女士) . . . . | 48 | Chairperson of the Supervisory Committee, shareholder representative Supervisor | Overseeing the Directors and management personnel to ensure compliance with laws and regulations, the Articles of Association and the resolutions of Shareholders' meetings | December 2015 | May 2007 |
| Mr. Xu Ke (徐可先生) . . . . | 35 | Shareholder representative Supervisor | Same as above | December 2015 | December 2015 |
| Ms. Huang Mei (黃梅女士) . . . . | 47 | Employee representative Supervisor | Same as above | June 2016 | December 1987 |
| Ms. Xiang Min (向敏女士) . . . . | 45 | Employee representative Supervisor | Same as above | July 2016 | September 1989 |
| Mr. Zhu Yuchuan (朱玉川先生) . . | 54 | Employee representative Supervisor | Same as above | December 2015 | April 1984 |
| Mr. Xuan Ming (宣明先生) . . . . | 46 | External Supervisor | Same as above | June 2016* | the Listing Date |
| Mr. Xiong Hua (熊華先生) . . . . | 33 | External Supervisor | Same as above | June 2016* | the Listing Date |

| Name | Age | Position in our Company | Responsibilities | Appointment date of current term | Time of joining our Group |
|---|---|---|---|---|---|
| **Senior management** | | | | | |
| Mr. Zhong Peng (鍾鵬先生) . . . . | 41 | Deputy general manager | Responsible for the management of our quality control system, the production, safety and engineering technology | December 2015 | May 2015 |
| Mr. Wang Minghua (王明華先生) . . | 48 | Deputy general manager | Responsible for our management of logistics department | December 2015 | July 2015 |
| Mr. Chen Yongzhong (陳永忠先生) . . | 43 | Chief financial officer, secretary to the Board and one of the joint company secretaries | Responsible for our Group's overall financial management | December 2014 | December 2012 |

* Effective from the Listing Date

## BOARD OF DIRECTORS

According to the Articles of Association, our Board comprises nine Directors. The term of service for each of our Directors is three years, and our Directors are permitted to be re-elected. Our independent non-executive Directors may not serve for more than six consecutive years.

According to the Articles of Association, the responsibilities of the Board include but are not limited to:

– executing Shareholders' resolutions and convening and reporting to the general meetings;

– formulating operation plans, investment plans, financial plans, asset plans and capital plans of our Company;

– deciding on the establishment of our Company's internal management structure and formulating the basic management policies of our Company;

– appointing, reviewing and dismissing the senior management of our Company;

– managing the disclosure of information of our Company; and

– taking responsibilities pursuant to relevant laws, the Articles of Association and the Shareholders' resolutions.

## DIRECTORS

Our Board is responsible and has general powers for the management and operation of our businesses. Our Board has nine Directors, comprising three executive Directors, three non-executive Directors, and three independent non-executive Directors.

### Executive Directors

**Mr. Zhang Qi (張歧先生)**, aged 43, served as the Chairman, an executive Director as at the Latest Practicable Date. He is primarily responsible for the overall operation of the Board, strategic development and planning and major decision making of our Group. He has also served as a director of our Controlling Shareholder, namely, Xinglu Investment, since March 2008, and the vice chairman of the board of directors of Sichuan Xiangjiaba Irrigation Construction and Development since March 2015.

Mr. Zhang has more than 24 years of experience in the wastewater treatment and tap water supply services industries. He joined Luzhou City Tap Water Co., Ltd.* (瀘州市自來水總公司) ("**Luzhou Tap Water**") as a worker in February 1992, then he served as a section chief assistant of business section from May 1998 to July 1999, as a vice section chief of business section from July 1999 to March 2001, and as a deputy general manager from March 2001 to July 2002. He served as the vice chairman of the Board and the general manager from July 2002 to December 2005, and was promoted and served as the Chairman and the general manager from December 2005 to December 2006. He also served as the general manager of Luzhou Jiangyang Wastewater Treatment Co., Ltd.* (瀘州江陽污水處理有限公司) (currently known as Xinglu Wastewater Treatment) from December 2003 to May 2005, and as the chairman of the board of directors of Beijiao Water from 20 June 2011 to 24 May 2015. Subsequently, he served as a director and the general manager of our Company from December 2006 to September 2015, and was re-appointed as the chairman of the Board and the chairman of the board of directors of Xinglu Wastewater Treatment from September 2015 to March 2016.

Mr. Zhang graduated from Sichuan University of Construction Workers* (四川省建築職工大學) in Chengdu, the PRC, majoring in industrial and civil construction in July 1994 and then obtained a master's degree majoring in business administration from Southwestern University of Finance and Economics* (西南財經大學) located in Chengdu, the PRC, in July 2007. Mr. Zhang obtained the qualification as senior engineer in drainage granted by Personnel Department of Sichuan Province* (四川省人事廳) in September 2009.

Mr. Zhang was awarded the following awards or honorary titles:

| Time | Awards/Honorary titles | Organisation issuing the awards |
|---|---|---|
| January 2003 | Top Ten Outstanding Young Entrepreneurs in Luzhou of the First Session* (瀘州市首屆十大傑出青年企業家) | Organisation Department and Propaganda Department of Luzhou Committee of the Communist Party of China* (中國共產黨瀘州委員會組織部和宣傳部), the Communist Youth League of China* (中國共產主義青年團), Luzhou City Personnel Bureau* (瀘州市人事局) and other six organisations |
| April 2003 | Youth Leaders of Innovation in Luzhou of the Year 2002* (2002年度瀘州市青年創新帶頭人) | Organisation Department and Propaganda Department of Luzhou Committee of the Communist Party of China* (中國共產黨瀘州委員會組織部和宣傳部), the Communist Youth League of China* (中國共產主義青年團), Luzhou City Personnel Bureau* (瀘州市人事局) and other five organisations |
| May 2006 | Outstanding Entrepreneurs in Luzhou of the First Session* (首屆瀘州市優秀創業企業家) | Luzhou Enterprise Confederation* (瀘州企業聯合會) and Luzhou Entrepreneurs Association* (瀘州企業家協會) |
| May 2007 | Advanced Cultural Entrepreneurs in West China of the First Session* (中國西部首屆先進文化企業家) | Western China* (中國西部雜誌社), Western China Enterprise Culture Institute* (中國西部企業文化院) and the Economic Daily* (經濟日報社) |
| April 2009 | Model Worker of the Seventh Session in Luzhou* (第七屆瀘州市勞動模範) | Luzhou Municipal Government* (瀘州市政府) |
| April 2011 | Sichuan Province May 1st Labour Medal* (四川省五一勞動獎章) | Sichuan Province Federation of Labour Unions* (四川省總工會) |
| April 2015 | Model Worker of the Seventh Session in Sichuan Province* (四川省第七屆勞動模範) | People's Government of Sichuan Province* (四川省人民政府) |

**Mr. Liao Xingyue (廖星樾先生)**, aged 35, joined our Group in December 2015 and served as an executive Director and the general manager of our Company as at the Latest Practicable Date, mainly responsible for our Group's daily operation matters.

Mr. Liao has nearly 8 years of experience of municipal infrastructure planning, investment, construction and management. Before joining our Group, Mr. Liao served as a clerk* (辦事員) in Lu County Construction Bureau* (瀘縣建設局) from September 2009 to May 2010, and served in Lu County Housing and Urban-rural Planning and Construction Bureau* (瀘縣住房和城鄉規劃建設局) as the deputy director of general office from May 2010 to August 2013 and as the chief of personnel department from July 2011 to August 2013. He then served as an officer* (科員) and the vice chief of inspection section* (監督科), successively, in Luzhou Municipal Urban Planning Administration Bureau* (瀘州市城市規劃管理局) from August 2013 to December 2014 and served as the chief of urban planning and construction section* (城市建設科) in Luzhou Municipal Housing and Urban and Rural Construction Bureau*(瀘州市住房和城鄉建設局) from December 2014 to December 2015.

Mr. Liao graduated from Tong Ji University in Shanghai, the PRC, with a bachelor degree, a master degree and a doctor's degree majoring in geological engineering in July 2003, May 2006 and May 2009, respectively.

**Mr. Wang Junhua (王君華先生)**, aged 52, served as an executive Director and a deputy general manager of our Company as at the Latest Practicable Date. Mr. Wang is responsible for the management of water supply service and project constructions, and in charge of enterprise management department and projects office of our Company. Mr. Wang has also served as the chairman of the board of Jiangnan Water since October 2011, the chairman of the board of Hejiang Water since April 2013, a director of Xinglu Wastewater Treatment since September 2014 and a supervisor of Luzhou Communication Investment Group Co., Ltd.* (瀘州市交通投資集團有限責任公司) since July 2011.

Mr. Wang has more than 30 years of experience in the water treatment and tap water supply services industries. He started his career in Luzhou City Anfu Water and Electronic Supply Co., Ltd.* (瀘洲市安富供水供電公司) in March 1986. He then served as an assistant manager of our predecessor, Luzhou Tap Water, and our Company from April 2001 to September 2002. Mr. Wang joined Naxi Water and served as the deputy manager from June 2001 to July 2002 and as the manager of Naxi Water from July 2002 to December 2009, and as the chairman of the board of directors of Naxi Water from January 2006 to June 2011. He was appointed as a Director and a deputy general manager of our Company in December 2006 and January 2010, respectively. He also served as the chairman of the board of Nanjiao Water from December 2013 to February 2014, as the chairman of the board of Sitong Engineering from August 2013 to May 2015, and as the chairman of the board of Sitong Design from March 2013 to November 2015.

Mr. Wang graduated from Sichuan University in Chengdu, the PRC, majoring in philosophy in July 1989, and from the correspondence college of the Party School of Sichuan Provincial Committee of the Communist Party of China* (中共四川省委黨校函授學院) in Chengdu, the PRC, majoring in law in December 2005. Mr. Wang then graduated from Southwest Communications University* (西南交通大學) in Chengdu, the PRC, majoring in business administration in March 2012. Mr. Wang obtained the qualification as a senior administration engineer granted by professional evaluation leading group for enterprise ideological and political personnel in Sichuan province* (四川省企業思想政治工作人員專業職務評定工作領導小組) in November 2009.

**Non-executive Directors**

**Mr. Chen Bing (陳兵先生)**, aged 46, served as a non-executive Director as at the Latest Practicable Date. He concurrently acted as the deputy general manager of Xinglu Investment, our Controlling Shareholder, a director of Luzhou Infrastructure, a director of Chuantie (Luzhou) Railway Co., Ltd.* (川鐵(瀘州)鐵路有限責任公司), the chairman of the board of directors and legal representative of Luzhou Rural Development, Investment and Construction Co., Ltd.* (瀘州市農村開發投資建設有限公司), a supervisor of South Sichuan Interurban Railway Co., Ltd.* (川南城際鐵路有限責任公司), a director of Sino-trains Luzhou Port Bonded Logistics Co., Ltd.* (中外運瀘州港保税物流有限公司), the chairman of the supervisors committee of Sichuan Xuda Railway Limited* (四川敘大鐵路有限責任公司) and Longma Xingda Petty Loan Co., Ltd.* (龍馬興達小額貸款股份有限公司) and a director of Luzhou City Chengnan Construction Investment Co., Ltd.* (瀘洲市城南建設投資有限公司).

Mr. Chen has over 21 years of experience of corporate management. Before joining our Group, Mr. Chen served in Sichuan Luzhou Investment Co., Ltd.* (四川省瀘州投資公司) as the deputy manager and the manager of securities department from October 1995 to May 1997 and from May 1997 to July 2001 respectively. He served as the manager of investment department of Luzhou Infrastructure from July 2001 to July 2004. He then served positions in Xinglu Investment as the manager of investment department from August 2004 to July 2010, as an assistant general manager from December 2006 to July 2010, as the manager of engineering department from November 2008 to July 2009, and was promoted as the deputy general manager in October 2012. He also served as the general manager and chairman of board of directors of Xinglu Wastewater Treatment from May 2005 to December 2007 and from June 2005 to September 2015 respectively.

Mr. Chen graduated from Zhengzhou Institute of Aeronautical Industry Management* (鄭州航空工程管理學院) located in Zhengzhou, the PRC, majoring in operation management in July 1992, then graduated from Party College of Sichuan Province* (中共四川省委黨校) in Chengdu, the PRC, in June 2004, and then obtained an executive master of business administration from Southwestern University of Finance and Economics* (西南財經大學) located in Chengdu, the PRC, in January 2011. Mr. Chen has been accredited as an assistant economist by Planning Committee of Luzhou City* (瀘州市計劃委員會) in April 1994 and obtained the certificate as a drainage engineer granted by Personnel Department of Sichuan Province* (四川省人事廳) in July 2010.

**Mr. Yang Ronggui (楊榮貴先生)**, aged 55, joined our Group in May 2007 and served as a non-executive Director as at the Latest Practicable Date. Mr. Yang concurrently served as the general legal counsel of Xinglu Investment and a director of Xinglu Wastewater Treatment since September 2011 and May 2007, respectively, a director of several subsidiaries of Xinglu Investment, including Luzhou Infrastructure, Luzhou Huarun Xinglu Gas Co., Ltd.* (瀘州華潤興瀘燃氣有限公司), Luzhou Xinglu Financing Guarantee Co., Ltd.* (瀘洲市興瀘融資擔保有限公司), Luzhou Xinglu Agriculture Financing Secured Co., Ltd.* (瀘州市興瀘農業融資擔保有限公司), Luzhou Jiangyang District Xinglu Hongyang Petty Loan Co., Ltd.* (瀘州市江陽

區興瀘鴻陽小額貸款有限公司), Luzhou Xinglu Environmental Protection Development Co., Ltd.* (瀘州市興瀘環保發展有限公司) and Luzhou Xinglu Taxi Co., Ltd.* (瀘州市興瀘出租車有限公司), a supervisor of several subsidiaries of Xinglu Investment, including Luzhou City Chengnan Construction Investment Co., Ltd.* (瀘洲市城南建設投資有限公司), Sichuan Yusheng Wine Industry Investment Management Co., Ltd.* (四川宇晟酒業投資管理有限公司) and Luzhou Yunlong Airport Development Co., Ltd.* (瀘州雲龍機場空港發展有限責任公司) since May 2007.

Mr. Yang has over 33 years' experience in legal affairs and over 9 years' experience in corporate management. Before joining our Group, Mr. Yang started his career by serving as a lawyer and the vice director in legal consultant office in Lu County* (瀘縣法律顧問處) from September 1981 to April 1990 and from April 1990 to April 1992, respectively. He then served as the head of Lu County Law Firm* (瀘縣律師事務所) from April 1992 to October 1996. He served as the deputy director of Bureau of Justice of Lu County* (瀘縣司法局) from October 1996 to May 2000, the director of Legislative Bureau of the People's Government of Lu County* (瀘縣人民政府法制局) from May 2000 to October 2001, the deputy director of general office of the People's Government of Lu County* (瀘縣人民政府辦公室), the director of legislative office of the People's Government of Lu County* (瀘縣人民政府法制辦) from October 2001 to June 2005 and the director of Bureau of Justice of Lu County* (瀘縣司法局) from June 2005 to September 2005. He then served positions in Xinglu Investment as a deputy manager of investment department from September 2005 to March 2006, as the manager of asset management department and legal counsel from March 2006 to April 2014, as the manager of production safety department from July 2013 to April 2014, and a manager of audit department from April 2014 to December 2015.

Mr. Yang graduated from Sichuan Radio and Television University* (四川廣播電視大學) in Chengdu, the PRC, majoring in politics in July 1986, from Southwestern College of Political Science and Law* (西南政法學院) in Chengdu, the PRC, majoring in law in December 1990, and obtained a bachelor's degree from correspondence college of the Party School of Sichuan Provincial Committee of the Communist Party of China* (中共四川省委黨校函授學院) majoring in law in May 1998. Mr. Yang obtained the title of third level lawyer* (三級律師) granted by Professional Title Reform Leading Group of Lu County* (瀘縣職稱改革工作領導小組) in March 1994.

**Ms. Xu Yan (徐燕女士)**, aged 51, joined our Group in December 2014 and served as a non-executive Director as at the Latest Practicable Date. Ms. Xu has also served as the chairman of the board of directors of Longma Xingda Petty Loan Co., Ltd.* (龍馬興達小額貸款股份有限公司) since December 2011, as a director of Luzhou Commercial Bank Co., Ltd.* (瀘州市商業銀行股份有限公司) since December 2012 and as the general manager of the finance center of Luzhou Laojiao since November 2015.

Ms. Xu has 21 years of experience of accounting and financial management. Before joining our Group, Ms. Xu served as the financial manager of Luzhou Laojiao Hotel* (瀘州老窖大酒店) from December 1995 to December 1996, as the chief of financial of the Luzhou Laojiao Automobile Transportation Company* (瀘州老窖汽車運輸公司) from January 1997 to December 1998, as the financial executive of the third branch of Luzhou Laojiao Co., Ltd.* (瀘州老窖股份有限公司三公司) from January 1999 to November 2000, and then she served positions in Luzhou Laojiao as a financial staff from December 2000 to April 2004, as the financial executive, the deputy director of financial center and the director of financial center from May 2005 to October 2015 successively.

Ms. Xu graduated from Southwestern University of Finance and Economics* (西南財經大學) in Chengdu, the PRC, majoring in accounting in December 1992 and from correspondence college of the Party School of Sichuan Provincial Committee of the Communist Party of China* (中共四川省委黨校函授學院) majoring in accounting finance in December 1999. Ms. Xu obtained the qualification as senior international finance manager granted by International Financial Management Association in November 2011.

**Independent Non-executive Directors**

**Mr. Gu Ming'an (辜明安先生)**, aged 50, was appointed as our independent non-executive Director, the chairman of the nomination and remuneration committee and a member of the audit committee taking effect on the Listing Date. He concurrently acted as a professor in Southwestern University of Finance and Economics* (西南財經大學). Mr. Gu also served as an independent director in several companies listed in Shenzhen Stock Exchange, including Sichuan Renzhi Oilfield Technology Services Co., Ltd. (四川仁智油田技術服務股份有限公司) (stock code: 002629), Chengdu Hi-Tech Development Co., Ltd. (成都高新發展股份有限公司) (stock code: 000628) and Sichuan Troy Information Technology Co., Ltd. (四川創意資訊技術股份有限公司) (stock code: 300366) since August 2014, August 2015 and December 2015, respectively.

Mr. Gu has over 27 years of experience in teaching and research. Mr. Gu worked in Chengguang Chemical Research Institute of Chemical Industry Ministry* (化工部成光化工研究院) from July 1989 to July 1993, and then he worked at Sichuan Institute of Chemical Industry* (四川輕化工學院) (currently known as Sichuan University of Science and Engineering* (四川理工學院)) from July 1993 to July 1999. Mr. Gu started to serve positions in Southwestern University of Finance and Economics* (西南財經大學) from July 1999, and was engaged as an associate professor and a professor in 2002 and 2008, respectively.

Mr. Gu graduated from Southwest China Normal University* (西南師範大學) in Chongqing, the PRC, with a bachelor's degree majoring in politics in July 1989 and graduated from Southwestern University of Political Science and Law* (西南政法大學) in Chongqing, the PRC, with a master's degree majoring in law in July 1999, then Mr. Gu graduated from Southwestern University of Finance and Economics* (西南財經大學) in Chengdu, the PRC, with a doctor's degree in 2008.

**Mr. Lin Bing (林兵先生)**, aged 48, was appointed as our independent non-executive Director taking effect on the Listing Date. He concurrently acted as a general manager in Zigong Academy of Urban Planning and Design Co., Ltd.* (自貢市城市規劃設計研究院有限責任公司) and a professor in Sichuan University of Science and Engineering* (四川理工學院).

Mr. Lin has over 26 years of experience in the engineering field. Mr. Lin served in Zigong Academy of Urban Planning and Design* (自貢市城市規劃設計研究院) from July 1990 to December 2004, as an engineer, the deputy director of municipal office, the director of the chief engineer office, the assistant to the president and the vice president, successively. Mr. Lin then served in Zigong Academy of Urban Planning and Design Co., Ltd.* (自貢市城市規劃設計研究院有限責任公司) as the vice president and president, successively, from January 2005 to December 2011 and was appointed as the vice chairman of the board of directors in December 2011.

Mr. Lin graduated from Chongqing Construction Engineering College* (重慶建築工程學院) in Chongqing, the PRC, majoring in environmental engineering in July 1990. Mr. Lin obtained the qualification as the registered consulting engineer granted by Personnel Department of Sichuan Province* (四川省人事廳) in August 2008, as the registered public facility engineer (water supply and drainage professional) granted by the Ministry of Housing and Urban-rural Department* (中華人民共和國住房和城鄉建設部) in September 2010, as the senior water supply and drainage engineer granted by Human Resources and Social Security of Sichuan Province* (四川省人力資源和社會保障廳) in November 2010, and as the registered urban planner granted by the Ministry of Housing and Urban-rural Department* (中華人民共和國住房和城鄉建設部) in August 2013. Mr. Lin was appointed as the bidding evaluation expert by People's Government of Sichuan Province (四川省人民政府) in June 2015 and as a member of legislative advisory group of People's Congress Standing Committee of Zigong City* (自貢市人大常委會立法諮詢小組) in May 2016.

**Mr. Cheng Hok Kai, Frederick (鄭學啟先生)**, aged 52, was appointed as our independent non-executive Director, the chairman of the audit committee and a member of the nomination and remuneration committee taking effect on the Listing Date. He concurrently acted as the company secretary and the managing director of corporate finance and investment in PuraPharm Corporation Ltd. (培力控股有限公司), a company listed on the Stock Exchange (stock code: 1498).

Mr. Cheng has extensive experience in business, finance and accounting management. Prior to joining our Group, from 1985 to 1988, Mr. Cheng worked as an audit assistant and senior accountant of Pricewaterhouse (currently known as PricewaterhouseCoopers), an accounting firm in Hong Kong, where he was primarily responsible for audit assignments for various companies. From 1997 to 2004, Mr. Cheng was the finance director of Asia Pacific and Japan of LSI Logic Hong Kong Limited, a company principally engaged in designing, developing, and marketing semiconductors and storage systems, focused in the storage, communication, and consumer markets, where he was primarily responsible for finance and accounting function for the operation in Asia Pacific and Japan. From 2004 to 2006, he was the finance director of Pacific Rim of Mentor Graphics Asia Pte Ltd., a company principally engaged in providing software and hardware design solutions for electronic design automation, where he was primarily responsible for the finance and accounting function of the operation in the Pacific Rim. From 2006 to 2008, he worked as the finance director for Asia Pacific and Japan of the Autodesk Asia Pte Ltd., a company principally engaged in providing 2D and 3D design software for the manufacturing, building and construction, and media and entertainment markets, where he was primarily responsible for finance and accounting function of the operation in Asia Pacific and Japan. Mr. Cheng then joined PuraPharm International (H.K.) Ltd. as chief financial officer in 2010.

Mr. Cheng obtained his bachelor's degree in finance and accounting from the University of Salford in the United Kingdom in July 1985, and his master's degree in accounting from the University of New South Wales in Australia in May 1992. Mr. Cheng was admitted as a certified practising accountant of CPA Australia (formerly known as the Australian Society of Certified Practising Accountants) and an associate of the Hong Kong Institute of Certified Public Accountants (formerly known as the Hong Kong Society of Accountants) in February 1992 and April 1992, respectively. Mr. Cheng became fellow member of the Hong Kong Institute of Certified Public Accountants and CPA Australia in March 2013 and January 2004, respectively, Mr. Cheng was admitted as an associate member of the Institute of Chartered Secretaries and Administrators in April 1995 and a member of the Governance Institute of Australia (formerly known as Chartered Secretaries Australia) in December 1996. Mr. Cheng became a fellow member of both the Institute of Chartered Secretaries and Administrators and the Governance Institute of Australia in June 2012 and November 2013, respectively.

## SUPERVISORY COMMITTEE

The Supervisory Committee comprises seven members. The term of service for each of the Supervisors is three years, and the Supervisors are permitted to be re-elected. The responsibilities of the Supervisory Committee include but are not limited to:

– reviewing the financial situation, examining the financial information of our Company and delegating, on behalf of our Company, other accounting firm examine financial information of our Company independently, if necessary;

– supervising the conducts of the Directors and senior management of our Company in discharge of their duties, advising on the dismissal of any Director and senior management and demanding rectification from the Directors and senior management where their conducts are detrimental to the interests of our Company;

– proposing to convene an extraordinary general meeting and convening and presiding over the general meeting when necessary; and

– submitting proposals to the general meetings.

### Supervisors

**Ms. Qu Mei (屈梅女士)**, aged 48, joined our Group in May 2007 and served as the chairperson of Supervisory Committee and a shareholder representative Supervisor of our Company at the Latest Practicable Date. Ms. Qu concurrently served as a manager of Party affairs department and a supervisor of Xinglu Investment, a supervisor of Luzhou Xinglu Agriculture Financing Secured Co., Ltd.* (瀘州市興瀘農業融資擔保有限公司), Luzhou Xinglu Financing Guarantee Co., Ltd.* (瀘洲市興瀘融資擔保有限公司), Luzhou Huarun Xinglu Gas Co., Ltd.* (瀘州華潤興瀘燃氣有限公司), Luzhou Xinglu Jutai Real Estate Co., Ltd.* (瀘州興瀘居泰房地產有限公司), Luzhou Traffic Investment Group Co., Ltd.* (瀘州市交通投資集團有限責任公司), Luzhou Xinglu Property Management Co., Ltd.* (瀘州興瀘物業管理有限公司) and Luzhou Xinglu Lantian Market Management Co., Ltd.* (瀘州市興瀘藍天市場管理有限公司).

Ms. Qu has 15 years of experience of corporate management. Before joining our Group, Ms. Qu served in the auto control department of Southwestern Chemical Research Institute* (西南化工研究院) from July 1989 to March 1998, and then served in Sichuan Luzhou

Investment Co., Ltd.* (四川省瀘州投資公司) from June 1998 to July 2001. Ms. Qu then served as the deputy director of general manager office and secretary to the board of Luzhou Infrastructure from July 2001 to March 2006, and was appointed as the manager of human resource department of Xinglu Investment from March 2006 to March 2016. Ms. Qu also served as the manager of audit department of Xinglu Investment from January 2009 to October 2009.

Ms. Qu graduated from correspondence college of the Party School of Sichuan Provincial Committee of the Communist Party of China* (中共四川省委黨校函授學院) with a bachelor's degree majoring in law in December 2002. Ms. Qu has obtained the human resource management expert granted by Ministry of Labour and Social Security* (中華人民共和國勞動和社會保障部) in June 2006.

**Mr. Xu Ke (徐可先生)**, aged 35, served as a shareholder representative Supervisor of our Company as at the Latest Practicable Date. Mr. Xu has served as the deputy manager of administration department responsible for legal affairs in Luzhou Laojiao Industrial Investment Management Co., Ltd.* (瀘州老窖實業投資管理有限公司), a wholly-owned subsidiary of one of our shareholders Luzhou Laojiao, since July 2014.

Before joining our Group, Mr. Xu served in People's Court of Jiangyang District, Luzhou City* (瀘州市江陽區人民法院) from September 2000 to March 2012, and as a legal counsel* (法務專員) in Luzhou Alcohol Concentration Development Area Co., Ltd.* (瀘州酒業集中發展區有限公司) from April 2012 to June 2014.

Mr. Xu graduated from Peking University* (北京大學) majoring in law (online course) in July 2005.

**Ms. Huang Mei (黃梅女士)**, aged 47, served as an employee representative Supervisor. She concurrently served as the chairman of the Labour Union of our Company and the deputy secretary of the Party Committee since 2002 and 2016, respectively, a supervisor of Beijiao Water since April 2008 and Xinglu Wastewater Treatment since September 2014, the chairman of the board of directors of Naxi Water since April 2013, and a supervisor of Xiangjiaba Irrigation Construction and Development since March 2015.

Ms. Huang served as a worker in Luzhou Tap Water Nanjiao Plant from December 1987 to February 1991. She served in Luzhou Tap Water as a Labour Union assistant and a vice secretary of Youth League branch from March 1991 to March 1998, as the secretary of Youth League branch from January 1997 to June 2002, as a member of Party Committee from November 1998 to June 2002, and as the vice chairman of the Labour Union from April 1998 to June 2002. From July 2002 to March 2016, she served as a vice secretary of Party Committee of our Company and concurrently served as a deputy general manager of our Company from March 2008 to November 2009 and the head of materials supply department of our Company from December 2014 to September 2015.

Ms. Huang graduated from correspondence college of the Party School of Sichuan Provincial Committee of the Communist Party of China* (中共四川省委黨校函授學院) majoring in law in December 1999.

**Ms. Xiang Min (向敏女士)**, aged 45, served as an employee representative Supervisor of our Company as at the Latest Practicable Date. She has concurrently served as the director of Xinglu Wastewater Treatment since September 2014, the chairman of the board of directors of Sitong Engineering since May 2015, and the director of general manager office of our Company since July 2015.

Ms. Xiang has 20 years of experience of human resource management. Ms. Xiang served as a meter reader and a toll collector at the business department of Luzhou City Tap Water Company* (瀘州市自來水公司) from September 1989 to April 1996, as an operator and a chief officer* (主辦) at the labour and capital department of Luzhou Tap Water from May 1996 to May 2002. She then acted as the head of human resource department of our Company from July 2002 to March 2015, as the general manager assistant of our Company from January 2013 to July 2015, and as the head of political and labour department of our Company from July 2013 to December 2013. Ms. Xiang also served as the director of our Company from December 2009 to June 2016 and the supervisor of Luzhou Industrial Investment Group Co., Ltd.* (瀘洲工業投資集團有限公司) since March 2015.

Ms. Xiang graduated from the correspondence college of the Party School of Sichuan Provincial Committee of the Communist Party of China* (中共四川省委黨校函授學院) with a bachelor's degree majoring in economic management in December 1999 and from Southwest Jiaotong University* (西南交通大學) in Chengdu, the PRC, majoring in business administration in June 2006. She obtained the qualification as the human resource economist of intermediate level conferred by Ministry of Personnel* (中華人民共和國人事部) in November 2000 and the qualification of the first class of human resources manager conferred by Ministry of Labour and Social Security (中華人民共和國勞動和社會保障部) in February 2009.

**Mr. Zhu Yuchuan (朱玉川先生)**, aged 54, served as an employee representative Supervisor and the head of technology department of our Company as at the Latest Practicable Date.

In April 1984, Mr. Zhu started his career in Luzhou Tap Water and served several positions in several plants of Luzhou Tap Water. He served as the vice section chief of business section and deputy manager of urban supply section of our Company from July 1995 to April 2010. He then acted as the manager in Beijiao Water from June 2011 to October 2011, and as the manager in Jiangnan Water from October 2011 to December 2014.

Mr. Zhu graduated from Sichuan Province Cadre Correspondence School* (四川省幹部函授學院) majoring in corporate management and economic law in June 2002 and from Sichuan College of Architectural Technology* (四川建築職業技術學院) in Deyang, the PRC, majoring in building construction and management in January 2007. Mr. Zhu obtained the qualification as drainage engineer granted by Personnel Department of Sichuan Province* (四川省人事廳) in January 2003.

**Mr. Xuan Ming (宣明先生)**, aged 46, served as an external Supervisor of our Company as at the Latest Practicable Date. Mr. Xuan concurrently served as the director of Sichuan Mayflower Law Firm* (四川五月花律師事務所).

Mr. Xuan has 11 years of experience in legal practice. Mr. Xuan started to act as a lawyer in Sichuan Mayflower Law Firm* (四川五月花律師事務所) from September 2005.

Mr. Xuan graduated from Sichuan Normal University* (四川師範大學) in Chengdu, the PRC, with a bachelor's degree majoring in science in July 1993 and from Southwestern University of Finance and Economics* (西南財經大學) in Chengdu, the PRC, with a master's degree in law in June 2012. Mr. Xuan obtained the certificate of legal professional granted by Ministry of Justice* (中華人民共和國司法部) in February 2005.

**Mr. Xiong Hua (熊華先生)**, aged 33, served as an external Supervisor of our Company as at the Latest Practicable Date. Mr. Xiong concurrently served as the vice director of Sichuan Changxin Accounting Firm Co., Ltd.* (四川長信會計師事務所有限公司) since January 2008.

Mr. Xiong has eight years of experience of accounting. He served as a clerk and an accountant in finance department of Luzhou Huitong Department Store Co., Ltd.* (瀘州匯通百貨股份有限公司) from April 2007 to January 2008.

Mr. Xiong graduated from Sichuan Management College* (四川管理職業學院) in Chengdu, the PRC, majoring in accounting computerisation in December 2005. Mr. Xiong obtained the certificate of certified public accountant granted by the MoF in October 2008, the qualification of semi-senior accountant granted by Personnel Department of Sichuan Province * (四川省人事廳) in October 2009, the qualification of registered tax agent granted by Human Resources and Social Security of Sichuan Province* (四川省人力資源和社會保障廳) in October 2011, and the certificate of certified public valuer granted by the MoF in December 2011.

## SENIOR MANAGEMENT

**Mr. Zhong Peng (鍾鵬先生)**, aged 41, served as a deputy general manager of our Company as at the Latest Practicable Date. Mr. Zhong is primarily responsible for the management of our quality control system, the production, safety and engineering technology, and in charge of production safety department and technology department of our Company. He concurrently served as the manager of Xinglu Water Crystal Mall from May 2015, as the chairman of board of directors of Beijiao Water, Nanjiao Water and Sitong Design from May 2015, June 2015 and November 2015, respectively.

Mr. Zhong has six years of experience of corporate management. Before joining our Group, Mr. Zhong served as the director* (廠長) of Panzhihua Xinzhong Titanium Technologies Co., Ltd. Rich-titanium Material Plant* (攀枝花新中鈦科技有限公司富鈦料廠) from October 2010 to January 2014, the deputy general manager and the chief engineer of Chengdu ASTEC GULN Environmental Protection Engineering Co., Ltd.* (成都阿斯特克國龍環保工程有限公司) from January 2014 to April 2015.

Mr. Zhong graduated from Pangang Technical School* (攀鋼技工學校) in July 1993 and from Southwestern University of Finance and Economics* (西南財經大學), a junior college, majoring in business administration (online course) in July 2013. Mr. Zhong obtained the qualification as electrical and mechanical engineer granted by Human Resources and Social Security Bureau of Ezhou City* (鄂州市人力資源和社會保障局) in September 2013.

**Mr. Wang Minghua (王明華先生)**, aged 48, served as a deputy general manager of our Company as at the Latest Practicable Date. Mr. Wang is primarily for the management of the logistics department of our Company. Mr. Wang served as a director of Luzhou Infrastructure concurrently.

Mr. Wang has 27 years of experience of financial management work. Before joining our Group, Mr. Wang served as an officer in Bureau of Finance Three Investigation Office of Luzhou City* (瀘州市財政局三查辦) from July 1989 to August 1995, the officer of Bureau of Finance Budget Division of Luzhou City* (瀘州市財政局預算科) from September 1995 to November 2000, the deputy director of Bureau of Finance Science and Education Division of Luzhou City* (瀘州市財政局科教文科) from December 2000 to June 2002, and the deputy chief of Bureau of Finance Science and Education Division of Luzhou City* (瀘州市財政局科教文科) from June 2002 to June 2006, the deputy director of General Office of Agricultural Development Leading Group of Luzhou City* (瀘州市農業綜合開發領導小組) from June 2006 to January 2007, the chief of Bureau of Finance Investment Management Division of Luzhou City* (瀘州市財政局投資管理科) from January 2007 to March 2011, and the chief of Bureau of Finance of Naxi district, Luzhou City* (瀘州市納溪區財政局) from March 2011 to March 2013. He then served as the manager of investment department of Xinglu Investment from March 2013 to June 2015 and concurrently as an assistant general manager of Xinglu Investment from May 2013 to May 2015. He was appointed as a deputy general manager of our Company on July 2015.

Mr. Wang graduated from Southwestern Normal University* (西南師範大學) majoring in accounting (correspondence course) in July 1999.

**Mr. Chen Yongzhong (陳永忠先生)**, aged 43, served as our chief financial officer, secretary to the Board and one of our joint company secretaries at the Latest Practicable Date. Mr. Chen is primarily responsible for the Group's overall financial management and in charge of financial department of our Company. Mr. Chen also served as the chief financial officer of Xinglu Wastewater Treatment since 3 September 2014.

Mr. Chen has over 19 years of experience of accounting and financing. Before joining our Group, Mr. Chen served in teaching position in Luzhou Finance and Economic School* (瀘州市財經學校) from August 1997 to May 2009. Mr. Chen served as a deputy manager of financial department of Xinglu Investment from August 2009 to December 2014. Mr. Chen subsequently joined our Group when he was appointed as the chief financial officer of our Company on 26 December 2012.

Mr. Chen graduated from Chengdu Meteorological Institute* (成都氣象學院) in Chengdu, the PRC, with a bachelor's degree majoring in accounting in June 1997. Mr. Chen was accredited as a mid-level accountant by MoF in May 2002, has passed the All Required Subjects of The National Uniform CPA Examination of the PRC in December 2007, obtained the qualification for registered tax agent granted by Sichuan Province Professional Title Reforming Leading Group* (四川省職稱改革工作領導小組) in September 2009 and was registered as a member of Chartered Accountant Association of Sichuan Province* (四川省註冊稅務師協會) in November 2011, and accredited as senior accountant by Human Resources and Social Security of Sichuan Province* (四川省人力資源和社會保障廳) in June 2012, successively. Mr. Chen obtained the qualification as senior international finance manager granted by International Financial Management Association in February 2013.

Save as disclosed above, no Directors, Supervisors or members of the senior management held any directorship positions in any other listed companies within the three years immediately preceding the date of this prospectus, nor has he or she held any other positions with our Group.

Save as disclosed above, there is no other information relating to the relationship of any of our Directors, Supervisors or members of the senior management with other Directors, Supervisors or members of the senior management that should be disclosed pursuant to Rule 13.51(2) or Paragraph 41(3) of Appendix 1A to the Listing Rules. None of our Directors, Supervisors or members of the senior management is interested in any business which competes or is likely to compete, either directly or indirectly, with the business of our Group.

## JOINT COMPANY SECRETARIES

**Mr. Chen Yongzhong (陳永忠先生)**, aged 43, has served as one of our Company's joint company secretaries since 5 August 2016. He concurrently served as our chief financial officer and secretary to the Board. For his biographical details, please refer to the paragraph headed "— Senior Management" in this section.

**Ms. Ng Wing Shan (吳詠珊女士)**, aged 40, has served as one of our Company's joint company secretaries since 25 July 2016. Ms. Ng now serves as the vice president of SW Corporate Services Group Limited, mainly responsible for assisting listed companies in professional company secretarial work. Ms. Ng possesses more than 10 years of professional experience in company secretarial field. Prior to joining SW Corporate Services Group Limited, she worked in KCS Hong Kong Limited, a corporate service provider and was responsible for handling secretarial and compliance matters in relation to Hong Kong listed companies and private companies incorporated in different jurisdictions. Ms. Ng is a fellow member of The Hong Kong Institute of Chartered Secretaries and The Institute of Chartered Secretaries and Administration in the United Kingdom.

We have applied to the Stock Exchange for, and the Stock Exchange has granted us, a waiver from strict compliance with Rule 3.28 and Rule 8.17 of the Listing Rules as regards to the necessary qualifications of Mr. Chen Yongzhong as one of our company secretaries. For further details of this waiver application, please see the section headed "Waiver from Strict Compliance with the Listing Rules and Exemption from Strict Compliance with Companies (Winding Up and Miscellaneous Provisions) Ordinance — Appointment of Joint Company Secretaries" in this prospectus.

## BOARD COMMITTEES

The Board delegates certain responsibilities to various Board committees. In accordance with the relevant PRC laws and regulations, the Articles of Association and the Listing Rules, we have established our strategy committee, nomination and remuneration committee and audit committee.

**Strategy Committee**

We have established the strategy committee and adopted a terms of reference on 1 June 2016. The primary responsibilities of our remuneration committee are to formulate the operation goals and long-term development strategies of our Company, making proposals on major events and supervising the implementation of annual operating plans and proposals.

The strategy committee comprises Mr. Chen Bing, Mr. Zhang Qi and Mr. Lin Bing. Mr. Chen Bing currently serves as the chairperson of the strategy committee.

**Nomination and Remuneration Committee**

We have established the nomination and remuneration committee and adopted a terms of reference on 1 June 2016, in compliance with Rule 3.25 of the Listing Rules and the Corporate Governance Code set out in Appendix 14 to the Listing Rules. The primary responsibilities of our nomination and remuneration committee are to make recommendations to our Board on the appointment and removal of our Directors and senior management, establish and review the policy and structure of the remuneration for our Directors and senior management and make recommendations on employee benefit arrangement.

The nomination and remuneration committee comprises Mr. Gu Ming'an, Mr. Cheng Hok Kai, Frederick and Mr. Zhang Qi. Mr. Gu Ming'an currently serves as the chairperson of the nomination and remuneration committee.

**Audit Committee**

We have established our audit committee and adopted an updated terms of reference on 1 June 2016 in compliance with Rule 3.21 of the Listing Rules and the Corporate Governance Code set out in Appendix 14 to the Listing Rules. The primary responsibilities of our audit committee are to supervise our internal control, risk management, financial information disclosure and financial reporting matters.

The audit committee comprises Mr. Cheng Hok Kai, Frederick, Mr. Gu Ming'an and Mr. Yang Ronggui. Mr. Cheng Hok Kai, Frederick currently serves as the chairperson of the audit committee.

## EMOLUMENT OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

We offer our executive Directors, employee representative Supervisors and senior management members, who are also employees of our Company, emolument in the form of fees, salaries, wages, allowances, pension, discretionary bonus and other welfares. Our independent non-executive Directors and external Supervisors receive fees from our Company and our non-executive Directors and shareholder representative Supervisors 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. We adopt a market and incentive-based employee emolument structure and implement a multi-layered evaluation system which focuses on performance and management goals.

For the years ended 31 December 2013, 2014 and 2015 and the ten months ended 31 October 2016, the aggregate amount of emolument paid and payable by our Company to our Directors and Supervisors were approximately RMB2.5 million, RMB2.3 million, RMB2.6 million and RMB2.0 million, respectively. For the years ended 31 December 2013, 2014 and 2015 and the ten months ended 31 October 2016, the aggregate amount of emolument paid and payable by our Company to our senior management were approximately RMB427,000, RMB448,000, RMB903,000 and RMB300,000, respectively. It is estimated that under the arrangements currently in force, the aggregate emolument payable to the Directors and Supervisors for the year ending 31 December 2017, will be approximately RMB3.1 million.

For the years ended 31 December 2013, 2014 and 2015 and the ten months ended 31 October 2016, the aggregate amount of emolument paid by our Company to the five highest paid individuals, including our Directors, were approximately RMB2.7 million, RMB2.3 million, RMB2.4 million and RMB1.8 million, respectively.

During the Track Record Period, no remuneration was paid by our Company to, or receivable by, our Directors, Supervisors or the five highest paid individuals as an inducement to join or upon joining our Group or as a compensation for loss of office in connection with the management of the affairs of any subsidiary of our Company during the Track Record Period.

During the Track Record Period, none of our Directors waived any emoluments. Except as disclosed above, no other payments have been paid, or are payable, by our Company or any of our subsidiaries to our Directors, Supervisors or the five highest paid individuals during the Track Record Period.

## COMPLIANCE ADVISER

We have appointed BOCOM International (Asia) Limited as our compliance adviser pursuant to Rules 3A.19 and 19A.05 of the Listing Rules. Pursuant to Rule 3A.23 of the Listing Rules, the compliance adviser will advise us in the following circumstances:

(a) before publication of any regulatory announcement, circular or financial report;

(b) where a transaction, which might constitute a notifiable or connected transaction under the Listing Rules, is contemplated, including share issues and securities repurchases;

(c) 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 of operation deviate from any forecast, estimate or other information in this prospectus; and

(d) where the Stock Exchange makes an inquiry of our Company regarding unusual movements in the price or trading volume of the Shares or any other matters under Rule 13.10 of the Listing Rules.

Pursuant to Rule 19A.06 of the Listing Rules, BOCOM International (Asia) Limited will, in a timely manner, inform us of any amendment or supplement to the Listing Rules that are announced by the Stock Exchange. BOCOM International (Asia) Limited will also inform us of any amendment or supplement to applicable laws and guidelines.

The term of the appointment will commence on the Listing Date and end on the date on which we publish our annual report for the first full financial year commencing after the Listing pursuant to Rule 13.46 of the Listing Rules.

As at the Latest Practicable Date, our share capital was RMB664,310,000 comprising 664,310,000 Domestic Shares and the following persons directly or indirectly control, or are entitled to exercise, or control the exercise of, 5% or more of the voting rights of our Domestic Shares:

| Shareholder | Number of Domestic Shares held | Approximate percentage of shareholding in the total share capital of our Company (%) |
|---|---|---|
| Xinglu Investment . . . . . . . . . . . . . . . . . . . . . . . . | 527,160,000 | 79.35 |
| Luzhou Laojiao . . . . . . . . . . . . . . . . . . . . . . . . . . . | 72,540,000 | 10.92 |
| Luzhou Infrastructure . . . . . . . . . . . . . . . . . . . . . | 64,610,000 | 9.73 |

So far as our Directors are aware, immediately following the completion of the Global Offering, 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:

| | | | Immediately after the completion of the Global Offering (assuming the Over-allotment Option is not exercised) | | Immediately after the completion of the Global Offering (assuming the Over-allotment Option is exercised in full ) | |
|---|---|---|---|---|---|---|
| Shareholder | Nature of interest | Class | Number of Shares held | Approximate percentage of shareholding in the total share capital of our Company (%) | Number of Shares held | Approximate percentage of shareholding in the total share capital of our Company (%) |
| Xinglu Investment . . | Beneficial owner | Domestic Shares | 511,654,127 | 59.52 | 509,328,246 | 57.29 |
| | Interest in a controlled corporation[(1)] | Domestic Shares | 62,709,563 | 7.29 | 62,424,497 | 7.02 |

*Note:*

(1) Luzhou Infrastructure was held as to 79.13% by Xinglu Investment. Therefore, Xinglu Investment was deemed to hold interest in the Domestic Shares held by Luzhou Infrastructure for the purpose of the SFO.

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.

As of the date of this prospectus, the registered share capital of our Company is RMB664,310,000, divided into 664,310,000 Domestic Shares with a nominal value of RMB1.00 each.

## UPON COMPLETION OF THE GLOBAL OFFERING

Assuming no exercise of the Over-allotment Option, the share capital of our Company immediately after completion of the Global Offering will be as follows:

| Number of shares | Description of Shares | Approximate percentage of registered capital |
|---|---|---|
| 644,770,000 | Domestic Shares in issue | 75.00% |
| 19,540,000 | H Shares to be converted from Domestic Shares and offered by the Selling Shareholders under the Global Offering | 2.27% |
| 195,400,000 | H Shares to be issued under the Global Offering | 22.73% |
| 859,710,000 | **Total** | 100.00% |

Assuming full exercise of the Over-allotment Option, the share capital of our Company immediately after completion of the Global Offering will be as follows:

| Number of shares | Description of Shares | Approximate percentage of registered capital |
|---|---|---|
| 641,839,000 | Domestic Shares in issue | 72.19% |
| 22,471,000 | H Shares to be converted from Domestic Shares and offered by the Selling Shareholders under the Global Offering | 2.53% |
| 224,710,000 | H Shares to be issued under the Global Offering | 25.28% |
| 889,020,000 | **Total** | 100.00% |

## OUR SHARES AND RANKING

Domestic Shares and H Shares are both ordinary shares in the share capital of our Company. However, H Shares may only be subscribed for by, and traded in Hong Kong dollars between, qualified domestic institutional investors, legal or natural persons of Hong Kong, Macau, Taiwan or any country other than the PRC. Domestic Shares, on the other hand, may only be subscribed for by, and traded between, qualified foreign institutional investors, legal or natural persons of the PRC (other than Hong Kong, Macau and Taiwan). All dividends in respect of H Shares are to be declared in Renminbi and paid by our Company in Hong Kong dollars whereas all dividends in respect of Domestic Shares are to be declared and paid by our Company in Renminbi.

All of the existing Domestic Shares are held by three existing Shareholders. Upon the approval of the relevant regulatory authorities of the PRC and Hong Kong, the Domestic Shares may be converted into H Shares.

H Shares and Domestic Shares are regarded as different classes of Shares under the Articles of Association. Save as described above and in relation to the despatch of notices and financial reports to shareholders, dispute resolution, registration of shares on different parts of the register of shareholders, the method of share transfer and the appointment of dividend receiving agents circumstances under which general meeting and class meeting are required, which are all provided for in the Articles of Association and summarised in Appendix V to this prospectus, the Domestic Shares and H Shares will rank *pari passu* with each other in all aspects and, in particular, will rank equally for all dividends or distributions declared, paid or made after the date of this prospectus. However, the transfer of Domestic Shares is subject to restrictions imposed by PRC laws from time to time.

## TRANSFER OF ISSUED SHARES BEFORE GLOBAL OFFERING

In accordance with the Company Law, shares which have been in issue before we publicly issue any shares may not be transferred within one year from the Listing Date. However, the Sale Shares to be converted from Domestic Shares and offered by the Selling Shareholders under Global Offering in accordance with relevant PRC regulations regarding the reduction of state-owned shares are not subject to such statutory restrictions (see "— Reduction of State-owned Shares" below).

## REDUCTION OF STATE-OWNED SHARES

In accordance with the Provisional Measures on Reducing State-owned Shares to Raise Social Security Fund (Guo Fa [2001] No. 22) (《減持國有股籌集社會保障資金管理暫行辦法》) (國發[2001]22號) issued by the State Council, our three state-owned Shareholders are required to transfer to NSSF, in aggregate, such number of Domestic Shares to be converted to H Shares equivalent to 10.0% of the number of the Offer Shares to be issued by us under the Global Offering, or pay the equivalent cash at the Offer Price after deducting the listing expenses under the Global Offering to NSSF, or a combination of both.

On 6 June 2016, SASAC approved all our three state-owned Shareholders, namely Xinglu Investment, Luzhou Laojiao and Luzhou Infrastructure, to transfer a maximum of 25,465,600 Domestic Shares to NSSF and the conversion of such number of Domestic Shares to H Shares. Pursuant to a letter issued by NSSF (She Bao Ji Jin Fa [2016] No. 132) on 13 October 2016, NSSF instructed us to (i) arrange for the sale of the Sale Shares, which shall equal to 10% of the number of the Offer Shares to be offered by our Company, and (ii) remit the proceeds from the sale of the Sale Shares (after deducting the SFC transaction levy and Stock Exchange trading fee) to an account designated by the NSSF. The conversion of those Domestic Shares into H Shares was approved by the CSRC on 3 November 2016. Our Company will not receive any proceeds from the sale of the Sale Shares by the Selling Shareholders pursuant to the Global Offering.

We have been advised by our PRC legal advisers, Jia Yuan Law Offices, that the conversion of the Domestic Shares and the sale of Sale Shares have been approved by the relevant PRC authorities and are legal and valid under the relevant PRC laws.

## CONVERSION OF OUR DOMESTIC SHARES INTO H SHARES

### Conversion of Unlisted Shares

Upon Listing, we will have two classes of ordinary Shares, namely, (i) H Shares and (ii) Domestic Shares which are not listed or traded on any stock exchange. According to the stipulations by the State Council's securities regulatory authority, our unlisted Shares may be converted into H Shares, and such converted H 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 processes (but without the necessity of Shareholders' approval by class) shall have been duly completed and the approval from the relevant PRC regulatory authorities, including the CSRC, shall have been obtained (the "**Arrangement**"). In addition, such conversion, trading and listing shall in all respects comply with the regulations prescribed by the State Council's securities regulatory authorities and the regulations, requirements and procedures prescribed by the relevant overseas stock exchange. The Arrangement applies only to unlisted Shares. All of our Domestic Shares are subject to the Arrangement and may be converted into H Shares upon the approval of the relevant regulatory authorities, including the CSRC and the Stock Exchange.

If any of our unlisted Shares are to be converted and traded as H Shares on the Stock Exchange, such conversion will be subject to the approval of the relevant PRC regulatory authorities including the CSRC. Approval of the Stock Exchange is required for the listing of such converted shares on the Stock Exchange. Based on the methodology and procedures for the conversion of our unlisted Shares into H Shares as described in this section, we can apply for the listing of all or any portion of our unlisted 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. As any listing of additional shares after our initial listing on the Stock Exchange is ordinarily considered by the Stock Exchange to be a purely administrative matter, it does not require such prior application for listing at the time of our initial listing in Hong Kong.

No Shareholder voting by class is required for the 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 our Shareholders and the public of any proposed conversion and transfer.

Please see the paragraph headed "— 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" in the section headed "Risk Factors" in this prospectus.

**Mechanism and Procedure for Conversion**

After all the requisite approvals have been obtained, the following procedure will need to be completed in order to effect the conversion: the relevant unlisted 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 our H Share Registrar to issue H Share certificates. Registration on our H Share register will be conditional on (a) our H Share Registrar lodging 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 in compliance with the Listing Rules, the General Rules of CCASS and the CCASS Operational Procedures in force from time to time. Until the converted 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 currently proposes to convert any of the unlisted Shares held by it into H Shares, except for the unlisted Shares to be converted and offered by the Selling Shareholders in connection with the Global Offering in accordance with relevant PRC regulations regarding the transfer of state-owned shares.

## REGISTRATION OF SHARES NOT LISTED ON AN OVERSEAS STOCK EXCHANGE

According to the Notice of Centralized Registration and Deposit of Non-overseas Listed Shares of Companies Listed on an Overseas Stock Exchange 《關於境外上市公司非境外上市(股份集中登記存管有關事宜的通知)》issued by the CSRC, an overseas listed company is required to register its shares that are not listed on any overseas stock exchange with China Securities Depository and Clearing Corporation Limited within 15 business days upon its listing.

***The following discussion should be read in conjunction with our consolidated financial information, together with the accompanying notes, as set forth in the Accountants' Report in Appendix I to this prospectus. Our consolidated financial information has been prepared in accordance with International Financial Reporting Standards ("IFRSs").***

***The following discussion and analysis contains certain forward-looking statements that reflect our current views with respect to future events and financial performance. These statements are based on our assumptions and analysis in light of our experience and perception of historical trends, current conditions and expected future developments, as well as factors we believe are appropriate under the relevant circumstances. However, whether actual outcomes and developments will meet our expectations and predictions depends on a number of risks and uncertainties over which we do not have control. Factors that could cause or contribute to such differences include those disclosed in "Risk Factors" and "Forward-looking Statements".***

## OVERVIEW

We are an integrated municipal water service provider in Sichuan Province in terms of tap water sales volume and number of plants in operation in 2015, according to the Frost & Sullivan Report. As of 31 October 2016, we operated six tap water supply plants with a capacity of approximately 280,500 tons per day and nine wastewater treatment plants with a capacity of approximately 261,000 tons per day. As of 31 December 2015, we were the largest tap water supply in terms of supply capacity in Luzhou Area with a market share of approximately 83.0%, according to the Frost & Sullivan Report.

We experienced steady growth during the Track Record Period. Our total revenue was RMB409.8 million, RMB629.0 million, RMB911.9 million and RMB721.0 million for the year ended 31 December 2013, 2014 and 2015 and for the ten months ended 31 October 2016, respectively. Revenue attributable to our tap water supply operations, which consisted of revenue from sales of tap water, installation and maintenance services and construction and upgrade services of tap water supply infrastructure was RMB310.1 million, RMB353.0 million, RMB531.6 million and RMB444.3 million for the year ended 31 December 2013, 2014 and 2015 and for the ten months ended 31 October 2016, respectively. Revenue attributable to our wastewater treatment operations, which consisted of revenue from operating service, interest income on receivable under service concession arrangements and construction and upgrade services of wastewater treatment infrastructure, was RMB99.7 million, RMB276.0 million, RMB380.3 million and RMB276.7 million, for the year ended 31 December 2013, 2014 and 2015 and for the ten months ended 31 October 2016. Our profit after tax was RMB88.0 million, RMB115.5 million, RMB144.4 million and RMB120.2 million for the year ended 31 December 2013, 2014 and 2015 and for the ten months ended 31 October 2016, respectively.

## BASIS OF PREPARATION

The Group had net current liabilities of RMB165.8 million, RMB292.0 million, RMB115.3 million and RMB83.4 million as of 31 December 2013, 2014 and 2015 and 31 October 2016, respectively. In the opinion of the Directors, the financial information has been prepared on a going concern basis because the Group will be able to meet in full its financial obligations when they fall due for the foreseeable future, taking into accounts of the expected cash flows from operations, undrawn banking facilities currently available to the Group, and new bank borrowings obtained subsequent to the Track Record Period.

## PRINCIPAL FACTORS AFFECTING OUR FINANCIAL CONDITIONS AND RESULTS OF OPERATIONS

During the Track Record Period, our financial position and results of operations were affected by a number of factors, which we expect would continue to affect our financial position and results of operations in the foreseeable future. Such factors include, but not limited to:

### Demand in Tap Water Supply and Wastewater Treatment Services

During the Track Record Period, our financial position and results of operations were directly affected by the sales volume in tap water supply operations and treatment volume in wastewater treatment operations, which were in turn driven by demand for the respective services.

Demand in tap water supply is largely driven by the number of end users of tap water. According to the Frost & Sullivan Report, economic growth, rising population and urbanisation in China and the recent introduction of the two-child policy are expected to drive further population growth, which will in turn drive the demand for tap water services. In addition, an increase in the number of end users will also likely result in an increase in revenue generated from pipeline installation and maintenance related services to connect new end users to our pipeline network. During the Track Record Period, we experienced annual increases in both our tap water supply volume and the number of end user accounts. The table below sets forth sales volume, the number of residential and non-residential end users of our tap water supply services for the indicated periods:

| | Year ended 31 December | | | | | | Ten months ended 31 October | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 2013 | | 2014 | | 2015 | | 2015 | | 2016 | |
| | | % | | % | | % | | % | | |
| **Sales volume (million ton)** | | | | | | | | | | |
| Residential | 40.2 | 63.6 | 44.6 | 64.5 | 51.0 | 66.9 | 42.3 | 66.8 | 46.6 | 68.4 |
| Non-residential(1) | 23.0 | 36.4 | 24.6 | 35.5 | 25.2 | 33.1 | 21.0 | 33.2 | 21.5 | 31.6 |
| Total | 63.2 | 100.0 | 69.2 | 100.0 | 76.2 | 100.0 | 63.3 | 100.0 | 68.1 | 100.0 |
| **Number of end user accounts at the end of the period (in thousand)** | | | | | | | | | | |
| Residential | 163 | 83.5 | 185 | 84.5 | 205 | 85.2 | 201 | 85.2 | 222 | 85.4 |
| Non-residential(1) | 32 | 16.5 | 34 | 15.5 | 36 | 14.8 | 35 | 14.8 | 38 | 14.6 |
| Total | 195 | 100.0 | 219 | 100.0 | 241 | 100.0 | 236 | 100.0 | 260 | 100.0 |

*Note:*

(1) Tap water usage by non-residential accounts includes general non-residential usage, special purpose usage and industrial/temporary usages.

Our number of water supply plants did not change during the Track Record Period. The aggregate designed supply capacity of our water supply plants increased from 235,500 tons per day to 280,500 tons per day in 2016, and the average utilisation rate was 84.0%, 89.9%, 94.6% and 93.0% for the year ended 31 December 2013, 2014 and 2015 and for the ten months ended 31 October 2016, respectively. Please see "Our Business — Our Tap Water Supply Services — Overview" for further details. In view of the increasing utilisation rate, we are in the process of expanding the designed capacity of selected water supply plants and constructing new water supply plants. For more details, please refer to the section headed "Our Business — Project and Operation Management — Construction of Plants and Pipelines — Construction of plants — Construction projects for tap water supply plants" in this prospectus.

Demand in wastewater treatment services depends on municipal wastewater generated within the service radius of our wastewater treatment plants, which are also indirectly driven by the consumption volume of tap water. In addition, acquisition of wastewater treatment plants enlarges our service radius and upgrade of our existing plants increases our treatment capacity. The table below sets forth the relevant information of wastewater treatment plants during the indicated periods:

| | Year ended 31 December | | | Ten months ended 31 October |
|---|---|---|---|---|
| | **2013** | **2014** | **2015** | **2016** |
| Number of plants at the beginning of the period | 4 | 5 | 7 | 7 |
| Number of plants at the end of the period | 5 | 7 | 7 | 9 |
| Treatment volume ('000 ton) | 31,462.9 | 40,432.2 | 44,605.6 | 39,757.9 |
| Total designed capacity at end of period ('000 ton(s)/day) | 103.5 | 121.0 | 161.0 | 261.0 |
| Average utilisation rate[(1)] | 83.3% | 91.5% | 86.7% | 92.4% |

*Note:*

(1) Average utilisation rate is calculated by dividing the actual treatment volume of the period indicated by i) 365 for the years ended 31 December 2013, 2014 and 2015 or 305 for the ten months ended 31 October 2016 and ii) the designed daily treatment capacity of the plant. The average utilisation rate is calculated excluding Naxi Treatment Plant Phase II, Chengdong Treatment Plant and Chengnan Treatment Plant. For further details on reasons for excluding Naxi Treatment Plant Phase II, Chengdong Treatment Plant and Chengnan Treatment Plant when calculating our average utilisation rate, please refer to "Our Business — Our Wastewater Treatment Services — Overview".

During the Track Record Period, we made consistent efforts to increase our treatment capacity through a combination of acquisition of treatment plants from third parties, upgrade of existing treatment plants and construction of treatment plants. We acquired the Lu County Treatment Plant in February 2013. The increase in total designed capacity from 31 December

2013 to 31 December 2014 was due to the acquisition of the Hejiang Treatment Plant in April 2014 and the Gulin Treatment Plant in July 2014. The increase in total designed capacity from 31 December 2014 to 31 December 2015 was due to the completion of (i) the Phase II expansion of the Erdaoxi Treatment Plant, which increased its treatment capacity from 20,000 tons per day to 40,000 tons per day, and (ii) the Phase II expansion of the Naxi Treatment Plant, which increased its treatment capacity from 7,500 tons per day to 27,500 tons per day. The increase in total designed capacity from 31 December 2015 to 31 October 2016 was due to the completion of Chengdong Treatment Plant and Chengnan Treatment Plant. For more details on treatment volume and utilisation rates of our individual plants, please refer to "Our Business — Our Wastewater Treatment Services — Overview". At the Latest Practicable Date, we completed the construction phase of Phase II of Naxi Treatment Plant, Chengdong Treatment Plant and Chengnan Treatment Plant and were receiving guaranteed minimum treatment tariff for trial operation. For more details, please refer to "Our Business — Project and Operation Management — Construction of Plants and Pipelines — Construction of plants — Construction projects for wastewater treatment plants".

**Change in Government Policies and Regulations on Municipal Water Service Industries**

Municipal water service industries in the PRC are highly regulated by relevant government authorities. As such, any significant changes in government policies, rules and regulations in public utility industries may materially affect our financial positions and results of operations.

The growing concerns on environmental issues in China in recent years have resulted in an increased focus on environmental protection related industries in the government's policy making. In April 2015, the State Council promulgated the Action Plan for Water Pollution Prevention and Control (水污染防治行動計劃), which sets forth ten overarching principles and numerous detailed plans for water pollution prevention and wastewater treatment in China. According to the Frost & Sullivan Report, such plan is expected to lead to significant government investments and initiatives in municipal water supply and wastewater treatment businesses. In addition, the continuous economic growth and urbanisation process in Luzhou Area will likely have a beneficial impact on our business, especially given our dominant presence in Luzhou Area and our expertise in tap water supply and wastewater treatment operations in rural areas. For more details, please refer to the section "Industry Overview".

**Tap Water Retail Prices and Wastewater Treatment Tariff**

Our gross profit for operations was directly impacted by the tap water unit retail prices paid to us by end users and wastewater treatment tariff paid to us by local governments. Under the existing regulatory regime, we have limited control over the pricing of both our tap water supply and wastewater treatment services, which are strictly regulated by the government. For most part of the Track Record Period, our tap water unit retail prices for residential and non-residential end users remained unchanged. For more details, please refer to the section "Our Business — Our Tap Water Supply Services — Sales of Tap Water — Pricing. Wastewater treatment tariff for each treatment plant is jointly negotiated with relevant competent government authorities. During the Track Record Period, the unit treatment price at each of our wastewater treatment project remained unchanged. For more details, please refer to the section "Our Business — Our Wastewater Treatment Services — Pricing".

However, according to Guidance on Accelerating the Establishment of the System of Ladder Water Price of Urban Residents (關於加快建立完善城鎮居民用水階梯價格制度的指導意見) promulgated by the NDRC on 31 December 2013, city-level local governments are required to implement volume-based retail price tiers for municipal water in their jurisdictions. Such measures have been implemented in the Luzhou Area commencing in May 2016, and we expect the implementation of such measures to positively impact the revenue and profit margin of our tap water supply business. Please see "Our Business — Our Tap Water Supply Services — Pricing".

**Cost of Sales and Services**

Our cost of sales and services primarily included, among others, construction costs and cost of electricity. Construction cost was mainly incurred on construction and upgrade activities on our tap water supply and wastewater treatment infrastructure which primarily included contracting costs paid to subcontractors. Electricity cost constitutes an important part of our cost of sales and services for our water supply and wastewater treatment operations. During the Track Record period, our electricity cost amounted to approximately 15.1%, 10.0%, 6.8% and 7.4% of the cost of sales and services. The prices of electricity are set by NDRC and vary by voltage. The electricity prices for large industrial users in Sichuan Province decreased in April 2015. For details, please refer to the section "Industry Overview — Price for Raw Materials". In the event that unit price of electricity in China increases unexpectedly to the extent that our Group has to incur substantial extra costs without sufficient compensations, the financial performance and profitability of our Group will be adversely affected.

The following table illustrates the sensitivity analysis of the estimated increase/decrease of our profit after tax in relation to percentage changes of the electricity cost. The sensitivity analysis assumes that the only variable that changes is the electricity cost while other variables remain unchanged. We believe a sensitivity analysis based on electricity costs is more reflective of our actual results of operation when compared to using construction costs as a basis. This is because the profit margin for our construction and upgrade service projects is determined by an independent third party valuer with reference to comparable projects in the relevant period, and a sensitivity analysis based on construction costs may not be reflective of the actual result. Based on the wastewater treatment tariff remaining constant and the fluctuation of average tap water tariff and electricity unit price generally within the range of ±10% during the Track Record Period, the analysis is intended for reference only, and any variation may differ from the amounts indicated.

| Increase/(decrease) in electricity cost | Year ended 31 December | | | Ten months ended 31 October | |
|---|---|---|---|---|---|
| | 2013 | 2014 | 2015 | 2015 | 2016 |
| | Increase/ (decrease) in profit after tax | Increase/ (decrease) in profit after tax | Increase/ (decrease) in profit after tax | Increase/ (decrease) in profit after tax | Increase/ (decrease) in profit after tax |
| | (RMB'000) | (RMB'000) | (RMB'000) | (RMB'000) | (RMB'000) |
| 10% | (4,023) | (3,345) | (3,411) | (3,345) | (3,411) |
| 5% | (2,011) | (1,672) | (1,706) | (1,672) | (1,706) |
| (5%) | 2,011 | 1,672 | 1,706 | 1,672 | 1,706 |
| (10%) | 4,023 | 3,345 | 3,411 | 3,345 | 3,411 |

The following table illustrates the sensitivity analysis on net current liabilities as of the dates indicated below, assuming that the financial impact on one period is independent of other periods:

| Increase/(decrease) in electricity cost | As of 31 December | | | As of 31 October |
|---|---|---|---|---|
| | 2013 | 2014 | 2015 | 2016 |
| | (RMB'000) | (RMB'000) | (RMB'000) | (RMB'000) |
| 10% | (169,833) | (295,362) | (118,973) | (86,797) |
| 5% | (167,821) | (293,689) | (117,038) | (85,092) |
| (5%) | (163,799) | (290,345) | (113,626) | (81,680) |
| (10%) | (161,787) | (288,672) | (111,921) | (79,975) |

The following table illustrates the sensitivity analysis on the change in tap water tariff to the Group's profit after tax and net current liabilities during the Track Record Period:

| Increase/(decrease) in tap water tariff | Year ended 31 December | | | Ten months ended 31 October | |
|---|---|---|---|---|---|
| | 2013 | 2014 | 2015 | 2015 | 2016 |
| | Increase/ (decrease) in profit after tax | Increase/ (decrease) in profit after tax | Increase/ (decrease) in profit after tax | Increase/ (decrease) in profit after tax | Increase/ (decrease) in profit after tax |
| | (RMB'000) | (RMB'000) | (RMB'000) | (RMB'000) | (RMB'000) |
| 10% | 11,245 | 12,596 | 13,885 | 11,431 | 12,419 |
| 5% | 5,623 | 6,298 | 6,942 | 5,715 | 6,209 |
| (5%) | (5,623) | (6,298) | (6,942) | (5,715) | (6,209) |
| (10%) | (11,245) | (12,596) | (13,885) | (11,431) | (12,419) |

| Increase/(decrease) in tap water tariff | As of 31 December | | | As of 31 October |
|---|---|---|---|---|
| | 2013 | 2014 | 2015 | 2016 |
| | Net current liabilities | Net current liabilities | Net current liabilities | Net current liabilities |
| | (RMB'000) | (RMB'000) | (RMB'000) | (RMB'000) |
| 10% | (154,565) | (279,421) | (101,447) | (70,967) |
| 5% | (160,187) | (285,719) | (108,390) | (77,177) |
| (5%) | (171,433) | (298,315) | (122,274) | (89,595) |
| (10%) | (177,055) | (304,613) | (129,217) | (95,805) |

The following table illustrates the sensitivity analysis on the change in wastewater treatment tariff and its effect on the Group's profit after tax and net current liabilities during the Track Record Period:

| | Year ended 31 December | | | Ten months ended 31 October | |
|---|---|---|---|---|---|
| | 2013 | 2014 | 2015 | 2015 | 2016 |
| Increase/(decrease) in wastewater treatment tariff | Increase/ (decrease) in profit after tax | Increase/ (decrease) in profit after tax | Increase/ (decrease) in profit after tax | Increase/ (decrease) in profit after tax | Increase/ (decrease) in profit after tax |
| | (RMB'000) | (RMB'000) | (RMB'000) | (RMB'000) | (RMB'000) |
| 10% | 7,627 | 9,317 | 11,091 | 9,187 | 10,939 |
| 5% | 3,814 | 4,658 | 5,546 | 4,594 | 5,469 |
| (5%) | (3,814) | (4,658) | (5,546) | (4,594) | (5,469) |
| (10%) | (7,627) | (9,317) | (11,091) | (9,187) | (10,939) |

| | As of 31 December | | | As of 31 October |
|---|---|---|---|---|
| | 2013 | 2014 | 2015 | 2016 |
| Increase/(decrease) in wastewater treatment tariff | Net current liabilities | Net current liabilities | Net current liabilities | Net current liabilities |
| | (RMB'000) | (RMB'000) | (RMB'000) | (RMB'000) |
| 10% | (158,183) | (282,700) | (104,241) | (72,447) |
| 5% | (161,996) | (287,359) | (109,786) | (77,917) |
| (5%) | (169,624) | (296,675) | (120,878) | (88,855) |
| (10%) | (173,437) | (301,334) | (126,423) | (94,325) |

**Access to Capital and Cost of Financing**

Our financial position and results of operations are affected by our access to capital and cost of financing. Our weighted-average interest rate was 2.1%, 7.9%, 5.8% and 4.4% per annum as of 31 December 2013, 2014, 2015 and 31 October 2016, respectively, and our finance cost was RMB6.2 million, RMB11.8 million, RMB14.4 million and RMB17.2 million, for the year ended 31 December 2013, 2014, 2015 and for the ten months ended 31 October 2016, respectively. During the Track Record Period, our main sources of capital are cash generated from operating activities, bank borrowing and borrowings from Xinglu Investment Group and other shareholders and capital contribution by shareholders.

Any change in the interest rate on our borrowings or the amount of our borrowings will affect our interest payments and finance costs and therefore, affect our cash flow, financial condition and results of operations. In addition, our access to capital and cost of financing are also affected by regulations promulgated from time to time by the PRC Government to limit money supply and availability of credit.

**Taxation**

As we derive all of our revenue and profit from China, our results of operations and profitability are affected by changes in tax rates in China. Our subsidiaries that are registered in China and have operations in China are subject to EIT and VAT on taxable income as reported in their PRC statutory accounts, as adjusted in accordance with the relevant PRC income tax laws, including value-added tax refunds. According to (i) the Notice of the Enterprise Income Tax for Implementation of Exploration and Development of Western Region (Notice of the State Administration of Taxation No. 12 [2012])* (關於深入實施西部大開發戰略有關稅收政策問題的通知) promulgated in April 2012 and effective from 1 January 2011 to 31 December 2020 and (ii) the Catalogue of Industries Encouraged to Develop in the Western Region (Order of the National Development and Reform Commission No. 15)* (西部地區鼓勵類產業目錄), companies located in the western region of the PRC and that engage in the business encouraged by the PRC government are entitled to the preferential EIT rate of 15% if the operating revenue of the encouraged business in a year accounted for more than 70% of the total income in that year. The Company and eight of our subsidiaries operated in the western region of the PRC and were entitled to such preferential EIT of 15%, as the revenues from principal activities of such entities comprise more than 70% of the total revenue of the subject entities for the year effective from 1 January 2011 to 31 December 2020.

Our sales of tap water under tap water supply business was subject to VAT during the Track Record Period and our installation and maintenance services revenue under tap water supply business has been subject to VAT since 1 May 2016 according to the VAT Pilot Program. Prior to 1 July 2015, no VAT was charged on wastewater treatment tariff. Commencing from 1 July 2015, we are required to pay VAT for wastewater treatment fees and such VAT paid are refundable pursuant to Notice 78. Further details of which, please refer to "Regulatory Environment".

## CRITICAL ACCOUNTING POLICIES

The estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

### 1. Service Concession Arrangements

We have entered into a number of service concession arrangements with governmental authorities or their designees (the "**Grantors**"). Under these service concession arrangements, the Grantors control or regulate the services the Group must provide with the infrastructure, to whom it must provide them, and at what price. At the same time, the Grantors control, through ownership, beneficial entitlement or otherwise, any significant residual interest in the infrastructure at the end of the term of the arrangement, or the infrastructure is used for its entire useful life under the arrangements, or both the Group's practical ability to sell or pledge the infrastructure is restricted and continuing right of use of the infrastructure is given to the Grantors throughout the period of the arrangements.

The Group's infrastructure includes leasehold land, buildings, plant and machinery that are acquired from the Grantors and/or are derecognised by the Group (when the Directors consider that the significant risks and rewards of these assets haven been passed to the Grantors) upon the service concession arrangements established.

### *1.1 Consideration given to the Grantors*

A financial asset (receivable under a service concession arrangement) is recognised to the extent that the Group has an unconditional right to receive cash or another financial asset from the Grantors for the consideration paid and payable by the Group to the Grantors. The Group has unconditional right to receive cash if the Grantors contractually guarantee 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 assets (receivables under service concession arrangements) are accounted for in accordance with the policy set out for loans and receivables under "— Financial instruments" 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 in "— Intangible assets" below.

If the Group is paid for the consideration (including the intangible assets recognised from our construction and upgrade services, acquisition cost of infrastructure and fair value of our existing infrastructure) 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.

### *1.2 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 is to maintain the wastewater treatment and water supply infrastructure it operates to a specified level of serviceability. These contractual obligations to maintain the wastewater treatment and water supply infrastructure, except for upgrade element, are recognised and measured in accordance with the policy set out for "— Provisions" below.

### *1.3 Operating service*

Revenue relating to operating service are accounted for in accordance with the policy for "— Revenue" below. Costs for operating services are expensed in the period in which they are incurred.

### *1.4 Construction and upgrade services*

Revenue and costs relating to construction or upgrade services of the existing or new infrastructure are recognised in accordance with the policy for "Construction contracts" while the costs incurred to date plus recognised profits less recognised losses, if any, (representing the revenue) are included in "Intangible assets".

**2. Intangible Assets**

The Group's intangible assets represent operating concessions and are stated at costs less accumulated amortisation and impairment, if any. Operating concessions are amortised over the tenure of the service concession arrangements, using straight-line method. Further detail of operating concessions are set out in "Service concession arrangements" above.

At the end of each reporting period, the Group reviews the carrying amounts of its intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified. For further details of the Impairment policy of intangible assets, please refer to the "Impairment of tangible and intangible assets" under "Notes to the Consolidated Financial Information — 4. Significant Accounting Policies" in Appendix I to this prospectus.

**3. Financial Instruments**

Financial assets and financial liabilities are recognised when a group entity becomes a party to the contractual provisions of the instruments.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. On the other hand, transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

***3.1 Financial assets***

Financial assets are classified into the following specified categories: "financial assets as fair value through profit or loss" ("**FVTPL**"), "available-for-sale ("**AFS**") investments" and "loans and receivables". The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace are recognised and derecognised.

*3.1.1 Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables (including receivables under service concession arrangements, trade and other receivables, amounts due from the immediate holding company of the Company, a fellow subsidiary and subsidiaries of the Company, bank balances and cash) are measured at amortised cost using the effective interest method, less any impairment.

Interest income is recognised by applying the effective interest rate, except for short-term receivables where the recognition of interest would be immaterial.

**4. Provisions**

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (when the effect of the time value of money is material).

**5. Construction Contracts**

When the outcome of a construction contract can be estimated reliably, revenue and costs are recognised by reference to the stage of completion of the contract activity at the end of the reporting period, measured based on the proportion of contract costs incurred for work performed to date relative to the estimated total contract costs, except where this would not be representative of the stage of completion. Variations in contract work, claims and incentive payments are included to the extent that the amount can be measured reliably and its receipt is considered probable.

When the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised to the extent of contract costs incurred that it is probable will be recoverable. Contract costs are recognised as expenses in the period in which they are incurred.

When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately. When contract costs incurred to date plus recognised profits less recognised losses exceed progress billings, the surplus is shown as amounts due from customers for contract work. For contracts where progress billings exceed contract costs incurred to date plus recognised profits less recognised losses, the surplus is shown as the amounts due to customers for contract work. Amounts received before the related work is performed are included in the consolidated statement of financial position, as a liability, as advances received. Amounts billed for work performed but not yet paid by the customer are included in the consolidated statements of financial position under trade receivables.

Revenue from installation services and construction or upgrade services of the existing or new infrastructure is recognised on the percentage-of-completion method.

**6. Revenue Recognition**

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customer returns, rebates and other similar allowances.

***Sale of goods***

Revenue from the sale of goods is recognised when the goods are delivered and titles have passed, at which time all the following conditions are satisfied:

- the Group has transferred to the buyer the significant risks and rewards of ownership of the goods;
- the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the Group; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

***Sales of water***

Sales of water is recognised when a Group has transmitted to the customers and the customers have accepted the water and collectability of the related receivables is reasonably assured.

***Revenue from construction contracts and construction or upgrade services of the existing or new infrastructure***

Revenue from installation service and construction or upgrade services of the existing or new infrastructure is recognised on the percentage-of-completion method.

***Sales of service***

Revenue from wastewater treatment operation, maintenance service and other services is recognised when service is rendered.

***Dividend and interest income***

Dividend income from investments is recognised when the Group's right to receive payment has been established (provided that it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably).

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

***Rental income***

The Group's policy for recognition of revenue from operating leases is described in the accounting policy in "Leasing" above.

**ACCOUNTING TREATMENTS OF OUR SERVICE CONCESSION ARRANGEMENTS**

All of our tap water supply and wastewater treatment arrangements under BOO and TOO models are within the scope of service concession arrangements under IFRIC 12 because, in the opinion of the Directors, the Group's service concession arrangements contain the following:

- the grantors control or regulate the tap water supply and wastewater treatment services the Group must provide with the infrastructure, to whom the Group must provide such services, and at prices regulated by the grantors;

- the entire life of the infrastructure are used in the Group's service concession arrangements for providing tap water supply and wastewater treatment service and, thus, the infrastructure remained at the end of the concession period would not have significant residual value; and

- the grantors restrict the Group's practical ability to sell or pledge the infrastructure that give the grantors continuing right of use throughout the period of the arrangement.

The accounting treatment of our infrastructure as service concession arrangements has had and will continue to have a material impact on our results of operations and financial position.

The following chart sets forth a summary of our accounting treatments for our service concession arrangements:

Criteria

(1) The grantor of the project controls or regulates what services we must provide with the infrastructure, to whom we must provide the service, and at what price

(2) The grantor of the project controls, through ownership, beneficial entitlement or otherwise, any significant residual interest in the infrastructure at the end of the service concession arrangement or the infrastructure is used in the service concession arrangement for its entire life

(3) The infrastructure is constructed or acquired from a third party for the purpose of the service concession arrangement or is an existing infrastructure of the grantor of the project to which we are given access for the purpose of the service concession arrangement

Projects fulfilling all of (1), (2) and (3)

Projects with non-guaranteed revenue stream

| | Pre-operational stage | Operational stage |
|---|---|---|
| Statement of profit or loss and other comprehensive income | – Construction services revenue[(1)] recognised<br>– Construction costs expensed | – Upgrade services revenue[(1)] recognised<br>– Upgrade costs expensed<br>– Operation revenue (service fee received/receivable) recognised<br>– Operation costs and amortisation of intangible assets expensed |
| Statement of financial position | – Intangible assets[(4)] are recognised for construction services revenue | – Intangible assets[(4)] are recognised for upgrade services revenue<br>– Amortisation of intangible assets (recognised from construction and upgrade services) on a straight line basis over the service concession arrangements |
| Statement of cash flows | – No cash inflow from construction services revenue<br>– Payments for construction costs are included in investing activities | – No cash inflow from upgrade services revenue<br>– Payments for upgrade costs are included in investing activities<br>– Receipts of service fee are included in operating activities<br>– Payments for operation costs are included in operating activities |

Projects with guaranteed revenue stream

| | Pre-operational stage | Operational stage |
|---|---|---|
| Statement of profit or loss and other comprehensive income | – Construction services revenue[(1)] recognised<br>– Construction costs expensed | – Upgrade services revenue[(1)] recognised<br>– Upgrade costs expensed<br>– Operation revenue (service fee received/receivable less partial settlement of receivables under service concession) recognised<br>– Interest income on receivables under service concession recognised<br>– Operating costs and amortisation of intangible assets expensed |
| Statement of financial position | – Intangible assets[(3)(4)] are initially recognised for construction services revenue | – Intangible assets[(3)(4)] are initially recognised for upgrade services revenue<br>– When we are entitled to the guaranteed revenue stream, the portion of intangible assets (recognised from construction and upgrade services) or acquisition cost of infrastructure or fair value of existing infrastructure representing the extent that we have a contractual right to receive cash from the grantors is recognised as our receivables under service concession arrangements[(2)] that are carried at amortised cost and will be settled by allocation of service fee received/receivable<br>– Amortisation of intangible assets (recognised from the remaining portion of construction and upgrade services) on a straight line basis over the service concession arrangements |
| Statement of cash flows | – No cash inflow from construction services revenue<br>– Payments for construction costs are included in investing activities | – No cash inflow from upgrade services revenue<br>– Payments for upgrade costs are included in investing activities<br>– Receipts of service fee are included in operating activities<br>– Payments for operation costs are included in operating activities |

*Notes:*

(1) Based on the estimation of gross profits on a cost-plus basis as determined by an independent valuer with reference to comparable projects in the relevant period.

(2) Our receivables under service concession arrangements are initially measured based on valuation of an independent valuer and are assessed for indicators of impairment at the end of each reporting period. Impairments are made when there is objective evidence that, as a result of one or more events that occurred after their initial recognition. For further details, please refer to "Financial Information — Description of Selected Consolidated Statements of Financial Position Items — Receivables under Service Concession Arrangements".

(3) We are not entitled to and could not estimate the amount of guaranteed revenue stream until commencement of operation (including trial operation) and after getting the confirmation from the relevant government authorities according to the relevant service concession agreements.

(4) At the end of each reporting period, we review the carrying amounts of our intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). For further details, please refer to "Financial Information — Description of Selected Consolidated Statements of Financial Position Items — Intangible Assets".

**1. Pre-Operational Stage**

***1.1 Accounting treatments of our service concession arrangements for certain items of Consolidated Statements of Profit or Loss and Other Comprehensive Income***

During the construction phase of our tap water supply and wastewater treatment infrastructure in the pre-operational stage, we recognised non-cash revenue in respect of our construction services, which recorded in our financial information as "construction services revenue". We did not receive any payment in cash from the local government for our construction services when the relevant revenue was recognised. The actual cash inflow would only be received in the form of cash tariff payments during the operational stage of the relevant projects over the stipulated concession period. As a result, there would be a mismatch between the recognition of revenue and the underlying cash flows for such construction projects.

Such construction services revenue from projects with non-guaranteed and guaranteed revenue stream according to the relevant service concession agreements was recognised based on our estimation of a cost-plus basis with gross profits as determined by an independent valuer, Savills, with reference to (i) comparable projects in the relevant period and (ii) the gross profit margin for engineering construction tender agency industry in China from Ministry of Housing and Urban-Rural Development of the People's Republic of China and when the outcome of the construction can be estimated reliably and by reference to the stage of completion at the end of the reporting period, measured based on the proportion of costs incurred for work performed to date relative to the estimated total costs, except where this would not be representative of the stage of completion. When the outcome of the construction cannot be estimated reliably, revenue is recognised to the extent of costs incurred that it is probable will be recovered. When it is probable that the total costs will exceed total revenue, the expected loss is recognised as an expense immediately. The construction costs incurred were recognised in cost of sales and services and were expensed during the construction phase in the pre-operational stage. For details on our gross profit and gross profit margin during the Track Record Period, please refer to the section "— Description of Selected Line Items in Consolidated Statements of Profit or Loss and Other Comprehensive Income — Gross Profit and Gross Profit Margin".

For further details of our accounting policies on construction service revenue and costs, please refer to the section "— Critical Accounting Policies".

***1.2 Accounting treatments of our service concession arrangements for certain items of Consolidated Statements of Financial Position***

We initially included the construction revenue from projects with non-guaranteed and guaranteed revenue stream according to the relevant service concession agreements during the construction phase in the pre-operational stage in our intangible assets as we are not entitled to guaranteed revenue stream for projects with non-guaranteed revenue stream and we are also not entitled to and could not estimate the amount of guaranteed revenue stream for projects with guaranteed revenue stream until the commencement of operation (including trial operation) and after getting the confirmation from the relevant government authorities according to the relevant service concession agreements. Such intangible assets do not commence amortisation until the operational stage. At the end of each reporting period, we review the carrying amounts of our intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any).

For details of the accounting policies on recognition, amortisation and impairment assessment of intangible assets, please refer to the section "— Critical Accounting Policies".

For details on the movement in the balances of intangible assets during the Track Record Period, please refer to the table under the section "— Critical Accounting Policies — Movements of Our Intangible Assets and Receivables under Service Concession Arrangements during the Track Record Period".

***1.3 Accounting treatments of our service concession arrangements for certain items of Consolidated Statements of Cash Flows***

During the construction phase in the pre-operational stage, we did not receive any payment in cash from the local government for our construction services from projects with non-guaranteed and guaranteed revenue stream according to the relevant service concession agreements when the relevant revenue was recognised. The actual cash inflow will only be received in the form of cash tariff payments during the operational stage of the relevant construction projects over the stipulated concession period. In contrast, payments for construction costs were regarded as cash outflows in investing activities on the consolidated statements of cash flows during the construction phase in the pre-operational stage.

**2. Operational Stage**

***2.1 Accounting treatments of our service concession arrangements for certain items of Consolidated Statements of Profit or Loss and Other Comprehensive Income***

During the upgrade phase of our tap water supply and wastewater treatment infrastructure in the operational stage, we recognised non-cash revenue in respect of the upgrade services for our existing infrastructure, which recorded in our financial information as "upgrade services revenue". We did not receive any payment in cash from the local government for our upgrade services when the relevant revenue was recognised. The actual cash inflow will only be received in the form of cash tariff payments during the operational stage of the relevant upgrade projects over the stipulated concession period. As a result, there would be a mismatch between the recognition of revenue and the underlying cash flows for such upgrade projects.

Such upgrade services revenue from projects with non-guaranteed and guaranteed revenue stream according to the relevant service concession agreements was recognised based on our estimation of gross profits on a cost-plus basis as determined by an independent valuer, Savills, with reference to (i) comparable projects in the relevant period and (ii) the gross profit margin for engineering construction tender agency industry in China from Ministry of Housing and Urban-Rural Development of the People's Republic of China and when the outcome of the upgrade can be estimated reliably and by reference to the stage of completion at the end of the reporting period, measured based on the proportion of costs incurred for work performed to date relative to the estimated total costs, except where this would not be representative of the stage of completion. When the outcome of the upgrade cannot be estimated reliably, revenue is recognised to the extent of costs incurred that it is probable will be recovered. When it is probable that the total costs will exceed total revenue, the expected loss is recognised as an expense immediately. The upgrade costs incurred were recognised in cost of sales and services and were expensed during the upgrade phase in the operational stage.

Besides, during the operational stage, we recognised sales of tap water when we have transmitted to the customers and the customers have accepted the water and collectability of the related receivables is reasonably assured.

We also recognise wastewater treatment service tariff as our operation revenue when service is rendered. Our wastewater treatment operation revenue is comprised of non-guaranteed and guaranteed portions. Non-guaranteed portion of wastewater treatment operation revenue is measured based on the non-guaranteed wastewater treatment volume (being the excess of wastewater treatment volume rendered in a period over the guaranteed wastewater treatment volume in the same period as set out in the concession agreements) at the relevant wastewater treatment tariff, net of the sales related taxes. Guaranteed wastewater treatment operation revenue is measured based on the guaranteed wastewater treatment volume at the relevant wastewater treatment tariff received/receivable, as adjusted for fair value as estimated by independent valuer, Savills, net of the relevant sales taxes.

As we recognised the portion of consideration given to the grantors representing the extent that we have a contractual right to receive cash from the grantors as receivables under service concession arrangements (when we are entitled to the guaranteed revenue stream according to the service concession agreements) which are carried at amortised costs, we also recognised interest income on receivables under service concession arrangements using the effective interest method throughout the concession period based on our outstanding receivables under service concession arrangements balance. The effective rate is determined by an independent valuer, Savills, during the Track Record Period.

When we receive a wastewater treatment tariff payment during a concession period, we apportion such payment into (i) a repayment of our receivables under service concession arrangements; (ii) interest income on receivables under service concession arrangements; and (iii) with the remainder being the operating service revenue.

The upgrade costs, operation costs and the amortisation expense of intangible assets incurred were recognised in cost of sales and services and were expensed during the operational stage.

For details on our gross profit and gross profit margin during the Track Record Period, please refer to the section "— Description of Selected Line Items in Consolidated Statements of Profit or Loss and Other Comprehensive Income — Gross Profit and Gross Profit Margin".

For further details of our accounting policies on upgrade service and costs and operation revenue and costs, please refer to the section "— Critical Accounting Policies".

***2.2 Accounting treatments of our service concession arrangements for certain items of Consolidated Statements of Financial Position***

We initially included the upgrade revenue from projects with non-guaranteed and guaranteed revenue stream according to the relevant service concession agreements during the upgrade phase in the operational stage in our intangible assets as we are not entitled to guaranteed revenue stream for projects with non-guaranteed revenue stream and we are also not entitled to and could not estimate the amount of guaranteed revenue stream for projects with guaranteed revenue stream until the commencement of operation (including trial operation) and after getting the confirmation from the relevant government authorities according to the relevant service concession agreements.

When we are entitled to the guaranteed revenue stream for projects with guaranteed revenue stream, the portion of intangible assets (recognised from construction and upgrade services) or acquisition cost of infrastructure or fair value of existing infrastructure representing the extent that we have a contractual right to receive cash from the grantors is initially measured and recognised as our receivables under service concession arrangements based on valuation of an independent valuer, Savills, that are then carried at amortised cost and will be settled by allocation of service fee received/receivable. At the end of each reporting period, we assess whether there is objective evidence that, as a result of one or more events, that occurred after the initial recognition and made impairment, if any.

The intangible assets (including those recognised from construction service for projects with non-guaranteed revenue stream and those recognised from the remaining portion of construction and upgrade services for projects with guaranteed revenue stream) commence amortisation upon operation (including trial operation) of the underlying infrastructure over the remaining tenure of the relevant concession arrangements on a straight-line basis. At the end of each reporting period, we review the carrying amounts of our intangible assets to determine whether there is any indication that those assets have suffered an impairment loss.

For details of the accounting policies on recognition, amortisation and impairment assessment of intangible assets and recognition and impairment assessment of receivables under service concession arrangements, please refer to the section "— Critical Accounting Policies".

For details on the movement in the balances of intangible assets and receivables under service concession arrangements during the Track Record Period, please refer to the table under the section "— Critical Accounting Policies — Movements of Our Intangible Assets and Receivables under Service Concession Arrangements during the Track Record Period".

### *2.3 Accounting treatments of our service concession arrangements for certain items of Consolidated Statements of Cash Flows*

During the upgrade phase in the operational stage, we did not receive any payment in cash from the local government for our upgrade services from projects with non-guaranteed and guaranteed revenue stream according to the relevant service concession agreements when the relevant revenue was recognised. The actual cash inflow will only be received in the form of cash tariff payments during the operational stage of the relevant upgrade projects over the stipulated concession period. In contrast, payments for upgrade costs were regarded as cash outflows in investing activities on the consolidated statements of cash flows during the upgrade phase in the operational stage.

During the operational stage, we received tap water tariff from projects with non-guaranteed revenue stream and wastewater treatment service tariff from projects with guaranteed revenue stream according to the relevant service concession agreements. Receipts of tap water tariff and wastewater treatment service tariff and payments of operation costs were regarded as cash flows in our operating activities on the consolidated statements of cash flows during the operational stage.

**Summary of accounting treatment for our BOO and TOO Projects**

***Tap Water***

Under our BOO and TOO tap water concession arrangements, we have a right to charge tap water users, which is not an unconditional right but to receive cash because the amounts are contingent on the extent that the tap water users use the tap water and other services according to the concession agreements.

***Wastewater treatment***

Under our BOO and TOO wastewater treatment concession arrangements, we have an unconditional right to receive certain amount of cash as the grantors contractually guarantee to pay us specified or determinable amounts or the shortfall, if any, between the amounts received from the users of the public service and specified or determinable amount.

The following table sets out our accounting treatment for our BOO and TOO projects (tap water projects and wastewater treatment projects) under concession arrangements, amongst others, regarding the recognition of our intangible assets, receivables under service concession arrangements, revenue (including tap water revenue, wastewater treatment operating service revenue, interest income on receivables under service concession arrangements and construction and upgrade service revenue) and costs at pre-operational and operational stages upon different triggering events.

| | BOO | | TOO | |
|---|---|---|---|---|
| | Tap water projects | Wastewater treatment projects | Tap water projects | Wastewater treatment projects |
| **Pre-operational stage** | | | | |
| Triggering event 1 — *During construction of new infrastructure under concession arrangements* | | | | |
| Intangible assets | The construction costs (including preparation costs before construction at planning stage) incurred to date plus recognised profits less recognised losses, if any, (representing the construction service revenue as further explained below) are included in intangible assets.<br><br>See also paragraphs 1.4 and 2 of our critical accounting policies. | Same as BOO tap water projects. | Not applicable. | Not applicable. |
| Construction service revenue | We recognise revenue relating to construction of new infrastructure based on our estimation of gross profits on a cost-plus basis as determined by an independent valuer with reference to comparable projects in the relevant period and when the outcome of the construction can be estimated reliably and by reference to the stage of completion at the end of the reporting period, measured based on the proportion of costs incurred for work performed to date relative to the estimated total costs, except where this would not be representative of the stage of completion. When the outcome of the construction cannot be estimated reliably, revenue is recognised to the extent of costs incurred that it is probable will be recovered. When it is probable that the total costs will exceed total revenue, the expected loss is recognised as an expense immediately.<br><br>See also paragraphs 1.4 and 5 of our critical accounting policies. | Same as BOO tap water projects. | Not applicable. | Not applicable. |

| | BOO | | TOO | |
|---|---|---|---|---|
| | Tap water projects | Wastewater treatment projects | Tap water projects | Wastewater treatment projects |
| Construction costs | The costs incurred during the period are recognised as cost of sales and services.<br><br>See also paragraphs 1.4 and 5 of our critical accounting policies. | Same as BOO tap water projects. | Not applicable. | Not applicable. |

**Operational stage**

Triggering event 2 — *For projects which we built and purchased our infrastructure (which was included in our property, plant and equipment) for our BOO and TOO projects, respectively, before concession arrangements established. Upon concession arrangements established*

| | | | | |
|---|---|---|---|---|
| Intangible assets and Receivables under concession arrangements | Our property, plant and equipment are derecognised at their fair value which is recognised as our intangible assets and such intangible assets commence amortisation over the remaining tenure of the relevant service concession arrangements, using straight-line method.<br><br>See also paragraphs 1.1 and 2 of our critical accounting policies. | Our property, plant and equipment are derecognised at their fair value which is recognised separately as our receivables under service concession arrangements and our intangible assets (as remainder), which commence amortisation over the remaining tenure of the relevant service concession arrangements, using straight-line method.<br><br>See also paragraphs 1.1 and 2 of our critical accounting policies.<br><br>Our receivables under service concession arrangements are initially measured based on valuation of an independent valuer and represent the extent that we have a contractual right to receive cash from the grantors and are then carried at amortised cost. | Same as BOO tap water projects. | Same as BOO wastewater treatment projects. |

| | BOO | | TOO | |
|---|---|---|---|---|
| | Tap water projects | Wastewater treatment projects | Tap water projects | Wastewater treatment projects |
| | | Guaranteed wastewater treatment operating service revenue (at fair value) and interest income (see below for details of their measurement) are recognised as additions to our receivables under service concession arrangements over the tenure of the concession arrangements.<br><br>Guaranteed wastewater treatment tariff received and receivable is allocated to reduce our receivables under service concession arrangements.<br><br>See also paragraphs 1.1 and 3.1.1 of our critical accounting policies. | | |
| Triggering event 3 — | *When the construction of the new infrastructure under concession arrangements (as aforesaid in the triggering event 1) completed and such infrastructure put into operation* | | | |
| Intangible assets and Receivables under concession arrangements | The intangible assets commence amortisation over the remaining tenure of the relevant service concession arrangements, using straight-line method.<br><br>See also paragraph 2 of our critical accounting policies. | When we are entitled to the guaranteed wastewater treatment volume, the portion representing the extent that we have a contractual right to receive cash from the grantors is transferred from our intangible assets as an addition to our receivables under service concession arrangements (its accounting treatment is the same as that of "Receivables under service concession arrangements" in the triggering event 2 above).<br><br>See also paragraphs 1.1 and 3.1.1 of our critical accounting policies.<br><br>The remaining portion as included in the intangible assets commence amortisation over the remaining tenure of the relevant service concession arrangements, using straight-line method.<br><br>See also paragraphs 1.1 and 2 of our critical accounting policies. | Not applicable. | Not applicable. |

| | BOO | | TOO | |
|---|---|---|---|---|
| | Tap water projects | Wastewater treatment projects | Tap water projects | Wastewater treatment projects |
| Triggering event 4 — | *For projects which during the operational stage and under concession arrangements, we upgraded our infrastructure to extend its life and/or capacity. When upgrading our infrastructure* | | | |
| Intangible assets | The accounting treatment of intangible assets is the same as that of "Intangible assets" in the triggering event 1. | Same as BOO tap water projects. | Same as BOO tap water projects. | Same as BOO tap water projects. |
| Construction service revenue | The accounting treatment of construction service revenue is the same as that of "Construction service revenue" in the triggering event 1. | Same as BOO tap water projects. | Same as BOO tap water projects. | Same as BOO tap water projects. |
| Construction costs | The accounting treatment of construction costs is the same as that of "construction costs" in the triggering event 1. | Same as BOO tap water projects. | Same as BOO tap water projects. | Same as BOO tap water projects. |
| Triggering event 5 — | *When upgrade of our infrastructure (as aforesaid in the triggering event 4) completed and they were put into operation* | | | |
| Intangible assets and Receivables under concession arrangements | The accounting treatment of intangible assets is the same as that of "Intangible assets" in the triggering event 3 above. | When we are entitled to the guaranteed wastewater treatment volume, the accounting treatments of receivables under concession arrangements and intangible assets are the same as those of "Receivables under service concession arrangements", in the triggering event 2 above and "intangible assets" in the triggering event 3 above, respectively. | Same as BOO tap water projects. | Same as BOO wastewater treatment projects. |

| | BOO | | TOO | |
|---|---|---|---|---|
| | Tap water projects | Wastewater treatment projects | Tap water projects | Wastewater treatment projects |
| Triggering event 6 — *We purchased infrastructure when the concession arrangements granted* | | | | |
| Intangible assets and Receivables under concession arrangements | Not applicable. | Not applicable. | Our purchased infrastructure is recognised as our intangible assets and its accounting treatment is the same as that of "Intangible assets" of BOO projects in the triggering event 3 above. | When we are entitled to the guaranteed wastewater treatment volume, our purchased infrastructure is recognised separately as our receivables under service concession arrangements (its accounting treatment is the same as that of "Receivables under service concession arrangements" of BOO projects in the triggering event 2) and our intangible assets (as remainder) (its accounting treatment is the same as that of "Intangible assets" of BOO projects in the triggering event 3 above). |

| | BOO | | TOO | |
|---|---|---|---|---|
| | **Tap water projects** | **Wastewater treatment projects** | **Tap water projects** | **Wastewater treatment projects** |
| Triggering event 7 — | *During the operational stage and under the concession arrangements, we used our infrastructure for generating revenue from tap water and wastewater treatment projects and incurred costs thereof* | | | |
| Revenue | Tap water revenue is recognised when we have transmitted to the customers and the customers have accepted the water and collectability of the related receivables is reasonably assured.<br><br>Tap water revenue is measured based on the volume of tap water consumed by tap water users at the tap water tariff, net of the sales related taxes.<br><br>When we receive a tap water tariff payment during a concession period, we record such payment as tap water revenue.<br><br>See also paragraph 1.3 of our critical accounting policies. | Wastewater treatment operating service revenue is comprised of non-guaranteed and guaranteed portions that are recognised when wastewater treatment operating service is rendered.<br><br>Non-guaranteed wastewater treatment operating service revenue is measured based on the non-guaranteed wastewater treatment volume (being the excess of wastewater treatment volume rendered in a period over the guaranteed wastewater treatment volume in the same period as set out in the concession agreements) at wastewater treatment tariff, net of the sales related taxes.<br><br>Guaranteed wastewater treatment operating service revenue is measured based on the guaranteed wastewater treatment volume at wastewater treatment tariff, as adjusted for fair value as estimated by independent valuer, net of the relevant sales taxes.<br><br>When we receive a wastewater treatment tariff payment during a concession period, we apportion such payment into (i) a repayment of our receivables under service concession arrangements; (ii) interest income on receivables under service concession arrangements (see below); and (iii) with the remainder being the operating service revenue.<br><br>See also paragraph 1.3 of our critical accounting policies. | Same as BOO tap water projects. | Same as BOO wastewater treatment projects. |

| | BOO | | TOO | |
|---|---|---|---|---|
| | Tap water projects | Wastewater treatment projects | Tap water projects | Wastewater treatment projects |
| Interest income on receivables under service concession arrangements | Not applicable. | Our interest income on receivables under service concession arrangements is recognised using the effective interest method throughout the concession period based on our outstanding receivables under service concession arrangements balance.<br><br>See also paragraph 3.1.1 of our critical accounting policies. | Not applicable. | Same as BOO wastewater treatment projects. |
| Costs related to operation | Costs are recognised on accrual basis and were paid when due.<br><br>See also paragraph 1.3 of our critical accounting policies. | Same as BOO tap water projects. | Same as BOO tap water projects. | Same as BOO tap water projects. |
| Contractual obligations to maintain the infrastructure it operates to specified level of serviceability and/or to restore the infrastructure to a specified condition | Provisions are recognised and measured in accordance with IAS 37 at the best estimate of the expenditure that would be required to settle the present obligations to maintain the infrastructure it operates to specified level of serviceability and/or to restore the infrastructure to a specified condition as required by the concession agreements.<br><br>See also paragraphs 1.2 and 4 of our critical accounting policies. | Same as BOO tap water projects. | Same as BOO tap water projects. | Same as BOO tap water projects. |

**Movements of Our Intangible Assets and Receivables under Service Concession Arrangements during the Track Record Period**

| | Intangible assets | Receivables under service concession arrangements |
|---|---|---|
| | RMB'000 | RMB'000 |
| **Balances as of 1 January 2013** | **331,932** | **79,281** |
| Additions of intangible assets representing revenue from construction and/or upgrade services of tap water supply and wastewater treatment infrastructure | 100,928 | – |
| Amortisation | (12,462) | – |
| Recognised upon the service concession arrangements established(1) | 36,836 | 149,434 |
| Guaranteed wastewater treatment operating service revenue recognised(2) | – | 52,379 |
| Interest income on receivables under service concession arrangements(2) | – | 13,451 |
| Guaranteed wastewater treatment tariff payment received/receivable(2) | – | (65,270) |
| **Balances as of 31 December 2013** | **457,234** | **229,275** |
| Additions of intangible assets representing revenue from construction and/or upgrade services of tap water supply and wastewater treatment infrastructure | 262,729 | – |
| Amortisation | (17,394) | – |
| Recognised upon the service concession arrangements established(3) | – | 65,559 |
| Guaranteed wastewater treatment operating service revenue recognised(2) | – | 66,649 |
| Interest income on receivables under service concession arrangements(2) | – | 15,747 |
| Guaranteed wastewater treatment tariff payment received/receivable(2) | – | (82,690) |
| **Balances as of 31 December 2014** | **702,569** | **294,540** |
| Additions of intangible assets representing revenue from construction and/or upgrade services of tap water supply and wastewater treatment infrastructure | 488,827 | – |
| Transfer to receivables under service concession arrangements due to additional wastewater treatment volume guaranteed(4) | (98,811) | 98,811 |
| Amortisation | (21,693) | – |
| Guaranteed wastewater treatment operating service revenue recognised(2) | – | 83,000 |
| Interest income on receivables under service concession arrangements(2) | – | 18,959 |
| Guaranteed wastewater treatment tariff payment received/receivable(2) | – | (104,482) |

| | Intangible assets | Receivables under service concession arrangements |
|---|---|---|
| | RMB'000 | RMB'000 |
| **Balances as of 31 December 2015** | **1,070,892** | **390,828** |
| Additions of intangible assets representing revenue from construction and/or upgrade services of tap water supply and wastewater treatment infrastructure | 337,604 | – |
| Amortisation | (22,180) | – |
| Transfer to receivables under service concession arrangements due to additional wastewater treatment volume guaranteed(5) | (389,602) | 389,602 |
| Guaranteed wastewater treatment operating service revenue recognised(2) | – | 86,034 |
| Interest income on receivables under service concession arrangements(2) | – | 21,517 |
| Guaranteed wastewater treatment tariff payment received/receivable(2) | – | (113,313) |
| **Balances as of 31 October 2016** | **996,714** | **774,668** |

*Notes:*

(1) We built our wastewater treatment infrastructure of Yaerdang Treatment Plant and Erdaoxi Treatment Plant (Phase I) and recognised them as our property, plant and equipment before the relevant concession arrangements were established in 2013. Besides, we also purchased the wastewater treatment infrastructure of Lu County Treatment Plant from governmental bureau and were granted service concession arrangement in 2013. Upon the establishment of relevant concession arrangements, we derecognised the property, plant and equipment relevant to Yaerdang Treatment Plant and Erdaoxi Treatment Plant Phase I and recognised both intangible assets and receivables under service concession arrangements at the fair value of the aforesaid property, plant and equipment in accordance with the accounting treatment in Triggering Event 2; and we recognised both intangible assets and receivables under service concession arrangements based on the consideration given for the wastewater treatment infrastructure of Lu County Treatment Plant in accordance with the accounting treatment in Triggering Event 6.

(2) Guaranteed wastewater treatment operating service revenue is measured based on the guaranteed wastewater treatment volume at wastewater treatment tariff, as adjusted for fair value as estimated by independent valuer, net of the relevant sales taxes, in accordance with the accounting treatment in Triggering Event 7.

We also recognised interest income on receivables under service concession arrangements using the effective interest method throughout the concession period based on our outstanding receivables under service concession arrangements balance in accordance with the accounting treatment in Triggering Event 7.

When we received a wastewater treatment tariff payment during a concession period, we allocated the guaranteed portion of wastewater treatment tariff to settle our receivables under service concession arrangements in accordance with the accounting treatment in Triggering Event 7.

(3) We purchased the wastewater treatment infrastructure of Hejiang Treatment Plant and Gulin Treatment Plant from governmental bureau and were granted service concession arrangements in 2014. Thus, we recognised receivables under service concession arrangements based on the consideration given for the wastewater treatment infrastructure of Hejiang Treatment Plant and Gulin Treatment Plant in accordance with the accounting treatment in Triggering Event 6.

(4) We built our wastewater treatment infrastructure for Erdaoxi Treatment Plant II and Naxi Treatment Plant II during the Track Record Period and were entitled to additional guaranteed wastewater treatment revenue stream in 2015. Thus, the portion representing the extent that we have a contractual right to receive cash from the grantors in respect of Erdaoxi Treatment Plant II and Naxi Treatment Plant II is transferred from our intangible assets as an addition to our receivables under service concession arrangements in accordance with the accounting treatment in Triggering Event 3.

(5) We built our wastewater treatment infrastructure for Chengdong Treatment Plant and Chengnan Treatment Plant during the Track Record Period and were entitled to additional guaranteed wastewater treatment revenue stream in July 2016. Thus, the portion representing the extent that we have a contractual right to receive cash from the grantors in respect of Chengdong Treatment Plant and Chengnan Treatment Plant is transferred from our intangible assets as an addition to our receivables under service concession arrangements in accordance with the accounting treatment in Triggering Event 3.

## CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

The table below sets forth our consolidated statements of profit or loss and other comprehensive income for the indicated periods.

| | Year ended 31 December | | | Ten months ended 31 October | |
|---|---|---|---|---|---|
| | 2013 | 2014 | 2015 | 2015 | 2016 |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 (unaudited) | RMB'000 |
| Revenue | 409,798 | 628,983 | 911,896 | 745,613 | 720,967 |
| Cost of sales and services | (268,194) | (456,820) | (699,435) | (572,358) | (542,084) |
| Gross profit | 141,604 | 172,163 | 212,461 | 173,255 | 178,883 |
| Other income, expenses, gains and losses, net | 6,716 | 15,879 | 19,329 | 14,778 | 22,190 |
| Selling and distribution expenses | (5,912) | (6,645) | (8,311) | (6,897) | (7,449) |
| Administrative expenses | (30,339) | (32,913) | (38,706) | (30,745) | (33,339) |
| Listing expenses | – | – | – | – | (1,640) |
| Finance costs | (6,236) | (11,765) | (14,421) | (10,486) | (17,197) |
| Profit before tax | 105,833 | 136,719 | 170,352 | 139,905 | 141,448 |
| Income tax expense | (17,880) | (21,187) | (25,934) | (21,361) | (21,288) |
| Profit after tax | 87,953 | 115,532 | 144,418 | 118,544 | 120,160 |
| Profit and total comprehensive income for the year/period attributable to: | | | | | |
| – Owners of the Company | 73,894 | 100,386 | 130,412 | 105,008 | 106,719 |
| – Non-controlling interests | 14,059 | 15,146 | 14,006 | 13,536 | 13,441 |
| | 87,953 | 115,532 | 144,418 | 118,544 | 120,160 |

## DESCRIPTION OF SELECTED LINE ITEMS IN CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

### Revenue

The table below set forth a breakdown of our revenue and percentage of total revenue by business segments for the indicated periods.

| | Year ended 31 December | | | | | | Ten months ended 31 October | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 2013 | | 2014 | | 2015 | | 2015 | | 2016 | |
| | RMB'000 | % | RMB'000 | % | RMB'000 | % | RMB'000 (unaudited) | % | RMB'000 | % |
| **Tap water supply** | | | | | | | | | | |
| ***Operational projects*** | | | | | | | | | | |
| Tap water | 132,299 | 32.3 | 148,185 | 23.5 | 163,348 | 17.9 | 134,479 | 18.0 | 146,105 | 20.3 |
| Installation and maintenance services(1) | 85,473 | 20.9 | 108,757 | 17.3 | 131,760 | 14.4 | 106,651 | 14.3 | 113,849 | 15.8 |
| Upgrade services of tap water supply infrastructure(2) | 83,107 | 20.3 | 65,857 | 10.5 | 129,896 | 14.2 | 106,624 | 14.3 | 86,435 | 12.0 |
| ***Pre-operational projects*** | | | | | | | | | | |
| Construction services of tap water supply infrastructure(2) | 9,208 | 2.2 | 30,152 | 4.8 | 106,552 | 11.7 | 83,741 | 11.2 | 97,912 | 13.6 |
| **Subtotal** | 310,087 | 75.7 | 352,951 | 56.1 | 531,556 | 58.2 | 431,495 | 57.8 | 444,301 | 61.7 |
| **Wastewater treatment** | | | | | | | | | | |
| ***Operational projects*** | | | | | | | | | | |
| Operating service | 77,647 | 18.9 | 93,565 | 14.9 | 109,002 | 12.0 | 90,186 | 12.1 | 101,892 | 14.1 |
| Interest income on receivables under service concession arrangements(3) | 13,451 | 3.3 | 15,747 | 2.5 | 18,959 | 2.1 | 15,546 | 2.2 | 21,517 | 3.0 |
| Upgrade services of wastewater treatment infrastructure(2) | 2,512 | 0.6 | 3,374 | 0.5 | 5,502 | 0.6 | – | – | 477 | 0.1 |
| ***Pre-operational projects*** | | | | | | | | | | |
| Construction services of wastewater treatment infrastructure(2) | 6,101 | 1.5 | 163,346 | 26.0 | 246,877 | 27.1 | 208,386 | 27.9 | 152,780 | 21.1 |
| **Subtotal** | 99,711 | 24.3 | 276,032 | 43.9 | 380,340 | 41.8 | 314,118 | 42.2 | 276,666 | 38.3 |
| **Total** | 409,798 | 100.0 | 628,983 | 100.0 | 911,896 | 100.0 | 745,613 | 100.0 | 720,967 | 100.0 |

*Notes:*

(1) We undertook pipeline construction projects based on end user needs or government planning. We generated revenue from such construction projects by charging new residential and non-residential end users an installation fee, which was calculated based on standards set in relevant regulations of local government. Such installation fee was recognised as revenue based on percentage of completion. For more details, please refer to "Financial Information — Description of Selected Line Items in Consolidated Statements of Profit or Loss and Other Comprehensive Income — Revenue — Tap water supply — Installation and maintenance services".

(2) We construct and upgrade our new and existing tap water supply and wastewater treatment infrastructure for our pre-operational and operational projects, respectively, to extend the life or

production capacity of the infrastructure under service concession arrangements. Our construction and upgrade projects include installation of new facilities to existing infrastructure or replacement of certain equipments and machinery that are currently in use. Accordingly, we recognised revenue in connection with the construction and upgrade services of our tap water supply and wastewater treatment infrastructure of our operational and pre-operational projects before such infrastructure are put into operation pursuant to IFRIC 12, based on the nature of the corresponding concession arrangement with the local governments as grantors of concession rights. For more details, please refer to "Financial Information — Critical Accounting Policies — 1. Service Concession Arrangements".

Our upgrade services of tap water supply infrastructure includes tap water supply plant upgrade and pipeline upgrade and extension projects. Our upgrade services of wastewater treatment infrastructure include upgrade projects of infrastructures at existing wastewater treatment plants.

(3) We recognised the portion of consideration given to the grantors representing the extent that we have a contractual right to receive cash from the grantors as receivables under service concession arrangements which are carried at amortised costs and we recognised interest income on receivables under service concession arrangements using the effective interest method throughout the concession period based on our outstanding receivables under service concession arrangements balance in accordance with IFRIC 12. The effective interest rate is determined by an independent valuer, Savills, which fell within the range from 3.51% to 6.00% per annum during the Track Record Period. For more details on the relevant accounting policies, please refer to the section "Financial Information — Critical Accounting Policies — 1. Service Concession Arrangements — 1.1 Consideration given to the Grantors".

***Tap water supply***

We generated the majority of our revenue from our tap water supply operations, which accounted for 75.7%, 56.1%, 58.2% and 61.7% of our total revenue for the year ended 31 December 2013, 2014 and 2015 and for the ten months ended 31 October 2016, respectively. Revenue attributable to our tap water supply, which consisted of sales of tap water, installation and maintenance services and construction and upgrade services of tap water supply infrastructure, was RMB310.1 million, RMB353.0 million, RMB531.6 million and RMB444.3 million, for the year ended 31 December 2013, 2014 and 2015 and for the ten months ended 31 October 2016, respectively.

We recognise revenue from construction projects during both the construction and the operational phases of the projects. However, while we recognise construction revenue for the projects, we actually do not receive any payment from the local governments for our construction services. The actual cash inflow for our construction revenue is only received in the form of cash tariff payments during the operational phase of the relevant projects over the stipulated concessional period.

*Sales of tap water*

We recognise sales of tap water when tap water is transmitted to the customers and the customers have accepted the water and the related receivables is reasonably assured, net of the relevant taxes such as VAT. We generated revenue from sales of tap water in the amount of RMB132.3 million, RMB148.2 million, RMB163.3 million and RMB146.1 million for the year ended 31 December 2013, 2014 and 2015 and for the ten months ended 31 October 2016, respectively, representing 32.3%, 23.5%, 17.9% and 20.3% of our total revenue in the corresponding periods. The year-on-year increases from 2013 to 2015 were primarily due to the increase in tap water sales volume, which were in turn primarily a result of the increase in the number of end users accounts during the Track Record Period.

*Installation and maintenance services*

We generated revenue from the installation fee in connection with the construction and connection of pipelines for new residential and non-residential end users and from maintenance fee for the provision of related services such as repair and maintenance of pipelines. We recognise installation fee as revenue based on the stages of completion of such work. Such revenue is net of the relevant taxes such as VAT. We generally engage third party subcontractors to perform pipeline construction works for large-size projects. For more details, please refer to "Our Business — Project and Operation Management — Construction of Plants and Pipelines — Construction of water supply pipelines" and "— Critical Accounting Policies — 5. Construction Contracts". Revenue from pipeline installation was affected by urbanisation development and local governments' urban planning during the Track Record Period. We also generated revenue from certain ad-hoc repair work we performed for end users and such revenue was recognised when work was completed.

Revenue generated from pipeline installation and maintenance services was RMB85.5 million, RMB108.8 million, RMB131.8 million and RMB113.8 million, for the year ended 31 December 2013, 2014 and 2015 and for the ten months ended 31 October 2016, respectively, representing 20.9%, 17.3%, 14.4% and 15.8% of total revenue during the same periods. The year-on-year changes from 2013 to 2015 were primarily due to the change of volume of work performed.

*Construction and upgrade services of tap water supply infrastructure*

We recognised revenue from construction and upgrade services of tap water supply infrastructure pursuant to IFRIC 12 in connection with construction projects we undertook on our tap water supply plants, our tap water supply pipeline network and related facilities. Revenue from construction and upgrade service projects under concession arrangements is estimated on a cost-plus basis with gross profit for such projects determined by an independent valuer, Savills, with reference to (i) comparable projects (including the experience of the Group's staff involved in administering the construction project and the nature of the Group's work associated with the construction services) in the relevant period and (ii) the gross profit margin for engineering construction tender agency industry in China from Ministry of Housing and Urban-Rural Development of the People's Republic of China. Such revenue was recognised according to the percentage of completion of the construction projects. Further details on our revenue recognition, please refer to "— Critical Accounting Policies".

***Wastewater treatment***

Revenue attributable to our wastewater treatment business consisted of revenue from treatment operations, interest income on receivables under service concession arrangements and revenue from construction and upgrade services of wastewater treatment infrastructure. Revenue attributable to our wastewater treatment business was RMB99.7 million, RMB276.0 million, RMB380.3 million and RMB276.7 million for the year ended 31 December 2013, 2014 and 2015 and for the ten months ended 31 October 2016, respectively, representing 24.3%, 43.9%, 41.8% and 38.3% of our total revenue during the same periods.

*Operating service*

We recognised revenue from wastewater treatment operating service when such service is rendered. Such revenue is net of relevant taxes such as VAT. During the Track Record Period, treatment tariff was made to us by local governments pursuant to the relevant concession agreements. Revenue generated from wastewater treatment operating service was RMB77.6 million, RMB93.6 million, RMB109.0 million and RMB101.9 million for the year ended 31 December 2013, 2014 and 2015 and for the ten months ended 31 October 2016, respectively, representing 18.9%, 14.9%, 12.0% and 14.1% of our total revenue, in the corresponding period. The year-on-year increases of such revenue from 2013 to 2015 were primarily attributable to increases in the treatment volume at our plants mainly driven by the newly acquired and constructed plants. During the Track Record Period our total treatment volume was 31.5 million ton, 40.4 million ton, 44.6 million ton and 39.8 million ton for the year ended 31 December 2013, 2014 and 2015 and for the ten months ended 31 October 2016, respectively. In February 2013 we acquired the Lu County Treatment Plant. In April 2014 and July 2014, we acquired the Hejiang Treatment Plant and Gulin Treatment Plant. In December 2014, the construction of fundamental structure and installation of facilities of Phase II of Erdaoxi Treatment Plant was completed and started trial operation subsequently. In July 2015 we began to receive minimum treatment tariff for Phase II of Naxi Treatment Plant. The acquisitions and construction contributed to the increase in our designed treatment capacity in the relevant periods. Unit tariff prices at each of our wastewater treatment project remained unchanged during the Track Record Period.

*Interest income on receivables under service concession arrangements*

A portion of the tariff payment we received was recognised as interest income on receivables under service concession arrangements under IFRIC 12. Receivables under service concession arrangement was recognised pursuant to the minimum treatment volume mechanism set forth in the relevant concession agreements pursuant to which we conduct our operations at our wastewater treatment plants. For more details on the relevant accounting policies, please refer to the section "— Critical Accounting Policies — 1. Service Concession Arrangements — 1.1 Consideration given to the Grantors". Such interest income was calculated by multiplying the opening balance of the receivables under service concession arrangements for a period by the effective interest rates as determined by an independent valuer, Savills, which fell within the range from 3.51% to 6.00% per annum during the Track Record Period.

*Construction and upgrade services of wastewater treatment infrastructure*

We recognised revenue from construction and upgrade services of wastewater treatment infrastructure pursuant to IFRIC 12 in connection with construction projects we undertook on our wastewater treatment plants and related facilities. Revenue from construction and upgrade service projects under concession arrangements is estimated on a cost-plus basis with gross profits for such projects determined by an independent valuer, Savills, with reference to (i) comparable projects (including the experience of the Group's staff involved in administering the construction project and the nature of the Group's work associated with the construction services) in the relevant period and (ii) the gross profit margin for engineering construction tender agency industry in China from Ministry of Housing and Urban-Rural

Development of the People's Republic of China which ranges from nil to 29% between 2013 and 2015 as a percentage of administrative service revenue earned. Calculation is made based on administrative service revenue earned only as Savills is of the view that only our administrative service is entitled to an additional profit element above cost. This is because we hired third-party contractors for significant construction and upgrade services contracts through public tender, and our primary role is administrative only following the appointment of the third party contractors. Most of our contracts are fixed price contracts, therefore any additional costs such as those caused by changes in salary, equipment and raw material prices during construction period would be borne by the third party contractors. Therefore, we do not assume any price risk associated with construction and upgrade services. As such, Savills is of the view that our construction payment to third party contractors is not entitled to additional profit margin on a cost-plus basis, and considers that we are only entitled to profit for the administration service we performed in the course of our provision of construction and upgrade services. Savills estimated the Group's gross profit amount by applying such gross profit margin in the corresponding period to the administrative costs incurred by the Group for the construction service undertook in the particular year/period . Such gross profit amount, when expressed in terms of a percentage of the construction service consideration as construction service gross profit margin, ranges between nil and 0.4% for the year ended 31 December 2013 to the first ten months of 2016. The range of gross margin is lower than the industry benchmark as the denominators are different. The denominator used in calculating our gross margin includes the construction cost and the administrative cost, while the industry benchmark only includes the administrative cost by the engineering construction tender agency industry. Since construction cost is significantly higher than the administrative cost, our gross margin is lower than the pure service margin calculated from the industry benchmark. Our gross margin for construction and upgrade services is low because the construction cost which is equal to payment to third party contractors for their construction and upgrade services do not generate additional profit margin on top of cost as discussed above. By subcontracting our construction work for tap water supply and wastewater treatment plants to third party contractors, we are exposed to default risk by our subcontractors under the relevant subcontracts. For more details, please refer to "Risk Factors — Risks Relating to our Business and Industry — We are exposed to default risk by our subcontractors under the relevant subcontracts". Revenue from construction and upgrade services is recognised as a percentage of the fair value of the project based on the progress of construction work.

Similar to the construction and upgrade services of tap water supply infrastructure, we did not receive any payment in cash from the local government for our construction and upgrade services of wastewater treatment infrastructure when the relevant revenue was recognised.

## Cost of Sales and Services

### *Cost of sales and services by nature*

The table below sets forth a breakdown of our cost of sales and services by nature and as a percentage of our total cost of sales and services for the indicated periods:

| | Year ended 31 December | | | | | | Ten months ended 31 October | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 2013 | | 2014 | | 2015 | | 2015 | | 2016 | |
| | RMB'000 | % | RMB'000 | % | RMB'000 | % | RMB'000 (unaudited) | % | RMB'000 | % |
| Construction cost | 100,928 | 37.6 | 262,264 | 57.4 | 488,156 | 69.8 | 398,206 | 69.6 | 337,009 | 62.2 |
| Cost of electricity | 40,583 | 15.1 | 45,873 | 10.0 | 47,328 | 6.8 | 39,350 | 6.9 | 40,135 | 7.4 |
| Employee benefit costs | 40,204 | 15.0 | 50,350 | 11.0 | 52,708 | 7.5 | 42,868 | 7.5 | 46,746 | 8.6 |
| Maintenance fee | 33,150 | 12.4 | 31,466 | 6.9 | 35,744 | 5.1 | 28,572 | 5.0 | 43,939 | 8.1 |
| Raw materials | 17,308 | 6.5 | 23,321 | 5.1 | 27,783 | 4.0 | 23,109 | 4.0 | 26,600 | 4.9 |
| Amortisation and depreciation expenses | 13,977 | 5.2 | 19,906 | 4.4 | 25,120 | 3.6 | 20,780 | 3.6 | 25,535 | 4.7 |
| Procurement cost of tap water from third parties | 8,129 | 3.0 | 10,338 | 2.3 | 8,455 | 1.2 | 7,365 | 1.3 | 8,016 | 1.5 |
| Raw water procurement fee | 4,093 | 1.5 | 4,479 | 1.0 | 5,951 | 0.9 | 4,771 | 0.8 | 6,740 | 1.2 |
| Others[1] | 9,822 | 3.7 | 8,823 | 1.9 | 8,190 | 1.1 | 7,337 | 1.3 | 7,364 | 1.4 |
| **Total** | 268,194 | 100.0 | 456,820 | 100.0 | 699,435 | 100.0 | 572,358 | 100.0 | 542,084 | 100.0 |

*Note:*

(1) Others primarily included staff related costs, material transportation and delivery costs, consumable for our operation and property management fees.

Our cost of sales and services primarily included construction cost, cost of electricity, employee benefit costs, maintenance fee, raw materials, depreciation and amortisation expenses, raw water procurement fee and procurement cost of tap water from third parties. Construction cost was mainly cost incurred on construction and upgrade services of our tap water supply and wastewater treatment infrastructure, which primarily included contracting costs paid to subcontractors. Our maintenance fee included the cost incurred in relation to maintenance of our plants and provisions recognised in accordance with relevant accounting standards.

### *Cost of sales and services by segments*

The table below sets forth a breakdown of our cost of sales and services by segments for the indicated periods.

| | Year ended 31 December | | | | | | Ten months ended 31 October | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 2013 | | 2014 | | 2015 | | 2015 | | 2016 | |
| | RMB'000 | % | RMB'000 | % | RMB'000 | % | RMB'000 (unaudited) | % | RMB'000 | % |
| **Tap water supply** | | | | | | | | | | |
| ***Operational projects*** | | | | | | | | | | |
| Tap water | 98,443 | 36.7 | 116,271 | 25.5 | 122,451 | 17.5 | 101,259 | 17.7 | 118,920 | 21.9 |
| Installation and maintenance services | 23,249 | 8.7 | 28,785 | 6.3 | 29,161 | 4.2 | 23,829 | 4.2 | 29,549 | 5.5 |
| Upgrade services of tap water supply infrastructure | 83,107 | 31.0 | 65,607 | 14.4 | 129,612 | 18.5 | 106,389 | 18.6 | 86,295 | 15.9 |
| ***Pre-operational projects*** | | | | | | | | | | |
| Construction services of tap water supply infrastructure | 9,208 | 3.4 | 30,037 | 6.6 | 106,318 | 15.2 | 83,556 | 14.5 | 97,628 | 18.0 |
| **Subtotal** | 214,007 | 79.8 | 240,700 | 52.8 | 387,542 | 55.4 | 315,033 | 55.0 | 332,392 | 61.3 |
| **Wastewater treatment** | | | | | | | | | | |
| ***Operational projects*** | | | | | | | | | | |
| Operating service | 45,574 | 17.0 | 49,500 | 10.8 | 59,667 | 8.5 | 49,064 | 8.6 | 56,606 | 10.4 |
| Upgrade services of wastewater treatment infrastructure | 2,512 | 0.9 | 3,372 | 0.7 | 5,497 | 0.8 | – | – | 476 | 0.1 |
| ***Pre-operational projects*** | | | | | | | | | | |
| Construction services of wastewater treatment infrastructure | 6,101 | 2.3 | 163,248 | 35.7 | 246,729 | 35.3 | 208,261 | 36.4 | 152,610 | 28.2 |
| **Subtotal** | 54,187 | 20.2 | 216,120 | 47.2 | 311,893 | 44.6 | 257,325 | 45.0 | 209,692 | 38.7 |
| **Total** | 268,194 | 100.0 | 456,820 | 100.0 | 699,435 | 100.0 | 572,358 | 100.0 | 542,084 | 100.0 |

*Tap water supply*

During the Track Record Period, cost of sales and services associated with the sales of tap water consisted primarily of raw materials and operational costs for providing tap water supply, such as cost of electricity, salaries of employees at the water supply plants. Cost of sales and services associated with the sales of tap water accounted for 36.7%, 25.5%, 17.5% and 21.9% of our total cost of sales and services for the year ended 31 December 2013, 2014 and 2015 and for the ten months ended 31 October 2016, respectively. The increases in cost of sales and services associated with sales of tap water were generally due to the increases of supply volume to satisfy increasing tap water demand by end users.

During the Track Record Period, cost of sales and services associated with installation and maintenance services consisted primarily of contract fee paid to independent subcontractors and cost for raw materials in connection with construction performed. Cost of sales and services associated with installation and maintenance services was RMB23.2 million, RMB28.8 million, RMB29.2 million and RMB29.5 million, for the year ended 31 December 2013, 2014 and 2015 and for the ten months ended 31 October 2016, respectively, representing 8.7%, 6.3%, 4.2% and 5.5% of our total cost of sales and services for the same periods. Cost of sales and services associated with installation is generally in line with the volume of work performed in a given period.

During the Track Record Period, cost of sales and services associated with construction and upgrade on tap water supply infrastructure consists primarily of cost paid to subcontractors for construction and upgrade services of tap water supply infrastructure. Cost of sales and services associated with construction and upgrade services of tap water supply plants was RMB92.3 million, RMB95.6 million, RMB235.9 million and RMB183.9 million for the year ended 31 December 2013, 2014 and 2015 and the ten months ended 31 October 2016, respectively, representing 34.4%, 21.0%, 33.7% and 33.9% of our total cost of sales and services, for the same periods.

*Wastewater treatment*

During the Track Record Period, cost of sales and services associated with wastewater treatment operating service consisted primarily of electricity cost, transportation cost for sludge, chemicals for wastewater treatment, salaries of employees at the wastewater treatment infrastructure and maintenance fees. Cost of sales and services from wastewater treatment operating services was RMB45.6 million, RMB49.5 million, RMB59.7 million and RMB56.6 million, for the year ended 31 December 2013, 2014 and 2015 and for the ten months ended 31 October 2016, respectively , representing 17.0%, 10.8%, 8.5% and 10.4% of our total cost of sales and services during the same periods. The year-on-year increases from 2013 to 2015 were primarily attributable to the increases in the treatment volume.

During the Track Record Period, we did not recognise any cost of sale in connection with revenue from interest income on receivables under service concession arrangements.

During the Track Record Period, cost of sales and services associated with construction and upgrade on wastewater treatment infrastructure consisted primarily of cost paid to sub-contractors. Cost of sales and services associated with construction and upgrade on wastewater treatment infrastructure was RMB8.6 million, RMB166.6 million, RMB252.2 million and RMB153.1 million, for the year ended 31 December 2013, 2014 and 2015 and for the ten months ended 31 October 2016, respectively, representing 3.2%, 36.4%, 36.1% and 28.3% of our total cost of sales and services during the same periods.

## Gross Profit and Gross Profit Margin

The table below sets forth a breakdown of our gross profit and gross profit margin by segments for the indicated periods.

| | Years ended 31 December | | | | | | Ten months ended 31 October | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 2013 | | 2014 | | 2015 | | 2015 | | 2016 | |
| | Gross Profit | Gross Profit margin | Gross Profit | Gross Profit Margin | Gross Profit | Gross Profit Margin | Gross Profit | Gross Profit margin | Gross Profit | Gross Profit margin |
| | RMB'000 | % | RMB'000 | % | RMB'000 | % | RMB'000 (unaudited) | % | RMB'000 | % |
| **Tap water supply** | | | | | | | | | | |
| ***Operational projects*** | | | | | | | | | | |
| Tap water | 33,856 | 25.6 | 31,914 | 21.5 | 40,897 | 25.0 | 33,220 | 24.7 | 27,185 | 18.6 |
| Installation and maintenance services | 62,224 | 72.8 | 79,972 | 73.5 | 102,599 | 77.9 | 82,822 | 77.7 | 84,300 | 74.0 |
| Upgrade services of tap water supply infrastructure(1) | – | – | 250 | 0.4 | 284 | 0.2 | 235 | 0.2 | 140 | 0.2 |
| ***Pre-operational projects*** | | | | | | | | | | |
| Construction services of tap water supply infrastructure(1) | – | – | 115 | 0.4 | 234 | 0.2 | 185 | 0.2 | 284 | 0.3 |
| **Subtotal** | 96,080 | 31.0 | 112,251 | 31.8 | 144,014 | 27.1 | 116,462 | 27.0 | 111,909 | 25.2 |
| **Wastewater treatment** | | | | | | | | | | |
| ***Operational projects*** | | | | | | | | | | |
| Operating service | 32,073 | 41.3 | 44,065 | 47.1 | 49,335 | 45.3 | 41,122 | 45.6 | 45,286 | 44.4 |
| Interest income on receivables under service concession arrangements | 13,451 | 100.0 | 15,747 | 100.0 | 18,959 | 100.0 | 15,546 | 100.0 | 21,517 | 100.0 |
| Upgrade services of wastewater treatment infrastructure(1) | – | – | 2 | 0.1 | 5 | – | – | – | 1 | 0.2 |
| ***Pre-operational projects*** | | | | | | | | | | |
| Construction services of wastewater treatment infrastructure(1) | – | – | 98 | 0.1 | 148 | 0.1 | 125 | 0.1 | 170 | 0.1 |
| **Subtotal** | 45,524 | 45.7 | 59,912 | 21.7 | 68,447 | 18.0 | 56,793 | 18.1 | 66,974 | 24.2 |
| **Total** | 141,604 | 34.6 | 172,163 | 27.4 | 212,461 | 23.3 | 173,255 | 23.2 | 178,883 | 24.8 |

*Note:*

(1) Gross profits of construction service or upgrade service relating to our tap water supply and wastewater treatment infrastructure were determined by the independent valuer, Savills, with reference to factors including comparable projects in the relevant period. For the year ended 31 December 2013, the gross profits margin of such comparable projects were immaterial, and we therefore recorded nil gross profit for the construction service and upgrade service of our tap water supply and wastewater treatment infrastructure in the same period.

For details, please refer to the sections "— Revenue — Tap water supply — Construction and upgrade services of tap water supply infrastructure" and "— Revenue — Wastewater treatment — Construction and upgrade services of wastewater treatment infrastructure".

Our gross profit was RMB141.6 million, RMB172.2 million, RMB212.5 million and RMB178.9 million for the year ended 31 December 2013, 2014 and 2015 and for the ten months ended 31 October 2016, respectively, representing gross profit margin of 34.6%, 27.4%, 23.2% and 24.8% during the corresponding periods. Our gross profit margin decreased during most part of the Track Record Period mainly due to the increases in contribution percentages of revenue derived from our construction and upgrade in tap water supply and wastewater treatment infrastructure segments, which had a lower profit margin as compared to other business segments.

Gross profit margin for sales of tap water was affected primarily by the retail prices, electricity and other operational cost and utilisation rate of water supply plants. Gross profit margin of installation and maintenance services was mainly affected by raw material cost and contract fee paid to subcontractors. Gross profit margin for wastewater treatment operating services was affected primarily by the unit tariff prices, electricity cost and the newly imposed VAT pursuant to the Notice 78 that was implemented and became effective from July 2015 onward.

The gross profits for our construction and upgrade services of tap water supply plants and wastewater treatment plants were determined based on the valuation of an independent valuer, Savills. In turn, such gross profits were set with reference to the gross margins of comparable projects during the relevant period.

**Other Income, Expenses, Gains and Losses, Net**

The table below sets forth our other income, expenses, gains and losses, net for the indicated periods:

| | Year ended 31 December | | | Ten months ended 31 October | |
|---|---|---|---|---|---|
| | 2013 | 2014 | 2015 | 2015 | 2016 |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 (unaudited) | RMB'000 |
| Bank interest income | 989 | 993 | 2,000 | 1,571 | 1,277 |
| Government grant recognised | 12,248 | 8,739 | 7,130 | 5,486 | 5,399 |
| VAT refunds | – | – | 4,800 | 2,962 | 8,764 |
| (Losses)/gains on disposal of property, plant and equipment, investment properties and prepaid lease payment, net | (410) | (314) | 802 | (2) | 2,775 |
| Loss on derecognition of property, plant and equipment upon concession arrangements established | (12,096) | – | – | – | – |
| Others[1] | 5,985 | 6,461 | 4,597 | 4,761 | 3,975 |
| **Total** | 6,716 | 15,879 | 19,329 | 14,778 | 22,190 |

*Note:*

(1) Others primarily included net rental income, commission income, garbage fees, late charges on tap water end user, impairment losses/reversal of impairment losses on trade and other receivables, water quality inspection fees and net foreign exchange losses.

Other income, expenses, gains or losses, net consisted primarily of income generated from government grant, VAT refunds, and net gains or losses on disposal of property, plant and equipment, among other things.

Government grants recognised consisted mainly of the portion of amount recognised from deferred revenue arising from government grants to subsidise our projects, including renovation of tap water supply and wastewater treatment infrastructure. We also received a compensation granted by government in 2013 in the amount of RMB5.7 million relating to relocation of certain property, plant and equipment and loss on prepaid lease payments that have been incurred and expensed in previous years. For more details, please refer to "— Description of Selected Consolidated Statements of Financial Position Items — Deferred Revenue".

No refund of VAT for our tap water supply revenue and installation and maintenance services revenue was available during the Track Record Period. We are entitled to a 70% refund of the VAT paid for wastewater treatment tariff upon achieving the technology requirements or pollutant emission standards prescribed in Notice 78. For the year ended 31 December 2015 and the ten months ended 31 October 2016, we received VAT refunds by the local governments. To continue to benefit from such VAT refunds, we need to meet both the technology requirements and pollutant emission standards. We do not recognise the VAT refunds as revenue until there is reasonable assurance that we will comply with the conditions attaching to the refunds and that the refunds will be received. The timing of our VAT refund is subject to the relevant administrative process. During the Track Record Period, such administrative process may take up to three months from the day of the VAT payment corresponding to the relevant refund.

The VAT refunds for the year ended 31 December 2015 and the ten months ended 31 October 2016 were made by the local governments, which was a 70% refund of VAT we paid on treatment tariff we received pursuant to Notice 78. Prior to 1 July 2015 we did not have to pay VAT on wastewater treatment tariff we received. The VAT refunds for the ten months ended 31 October 2015 is much lower than that of the same period of 2016 as such refund was only applicable for four months for the ten months ended 31 October 2015 but applicable for the whole ten months for the corresponding period in 2016.

We incurred loss on derecognition of property, plant and equipment in the amount of RMB12.1 million for the year ended 31 December 2013, which arose when we reclassified certain property, plant and equipment as receivables under service commission arrangements and intangible assets at fair value.

**Selling and Distribution Expenses**

Selling and distribution expenses mainly consisted of salaries and benefits paid to our employees at our local tap water service centers and pipeline maintenance crew and commission charges which we paid to parties that collected tap water supply fees for us. Our selling and distribution expenses were RMB5.9 million, RMB6.6 million, RMB8.3 million and RMB7.4 million for the year ended 31 December 2013, 2014 and 2015 and for the ten months ended 31 October 2016, respectively. During the Track Record Period, the components of the selling and distribution expenses of our Group are summarised below:

| | Year ended 31 December | | | Ten months ended 31 October | |
|---|---|---|---|---|---|
| | 2013 | 2014 | 2015 | 2015 | 2016 |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 (unaudited) | RMB'000 |
| Employee benefit costs | 4,238 | 5,353 | 6,883 | 5,681 | 6,213 |
| Commission charge | 311 | 337 | 302 | 291 | 254 |
| Others[(1)] | 1,363 | 955 | 1,126 | 925 | 982 |
| **Total** | 5,912 | 6,645 | 8,311 | 6,897 | 7,449 |

*Note:*

(1) Other costs primarily included office expenses and maintenance costs for non-infrastructure and depreciation expenses.

**Administrative Expenses**

Our administrative expenses during the Track Record Period consisted primarily of (i) staff salary and employee benefits paid to our management and administrative staff; (ii) tax expenses including property tax, land use right tax and stamp duty; (iii) travel and office expenses; and (iv) depreciation charge on the property, plant and equipment. Our administrative expenses were RMB30.3 million, RMB32.9 million, RMB38.7 million and RMB33.3 million for the year ended 31 December 2013, 2014 and 2015 and for the ten months ended 31 October 2016, respectively, representing 7.4%, 5.2%, 4.2% and 4.6% of our total revenue during the corresponding periods. The increase in our administrative expenses primarily resulted from a growth in our employee benefit costs driven by the increase in the salaries and benefits we paid to our management and administrative staff along with the continued expansion of our work force.

The table below sets forth our administrative expenses for the indicated periods:

| | Year ended 31 December | | | | | | Ten months ended 31 October | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 2013 | | 2014 | | 2015 | | 2015 | | 2016 | |
| | RMB'000 | % | RMB'000 | % | RMB'000 | % | RMB'000 (unaudited) | % | RMB'000 | % |
| Employee benefit costs | 16,457 | 54.3 | 19,734 | 60.0 | 24,146 | 62.4 | 19,200 | 62.4 | 21,033 | 63.1 |
| Travel and office expenses | 5,167 | 17.0 | 4,380 | 13.3 | 5,200 | 13.4 | 4,564 | 14.8 | 5,618 | 16.9 |
| Tax expenses | 4,439 | 14.6 | 3,828 | 11.6 | 3,863 | 10.0 | 3,094 | 10.1 | 3,557 | 10.7 |
| Depreciation and amortisation | 1,929 | 6.4 | 2,040 | 6.2 | 2,840 | 7.3 | 2,312 | 7.5 | 2,527 | 7.6 |
| Others | 2,347 | 7.7 | 2,931 | 8.9 | 2,657 | 6.9 | 1,575 | 5.2 | 604 | 1.7 |
| **Total** | 30,339 | 100.0 | 32,913 | 100.0 | 38,706 | 100.0 | 30,745 | 100.0 | 33,339 | 100.0 |

*Note:*

(1) The auditors' remuneration were included in the other expenses.

**Finance Costs**

The table below sets forth our finance costs for the indicated periods:

| | Year ended 31 December | | | Ten months ended 31 October | |
|---|---|---|---|---|---|
| | 2013 | 2014 | 2015 | 2015 | 2016 |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 (unaudited) | RMB'000 |
| Interest on bank borrowings . | 1,261 | – | 1,866 | 1,510 | 20,592 |
| Interest on other borrowings[(1)] . . . . . . . . . . . . | 3,152 | 18,525 | 22,770 | 18,538 | 2,626 |
| Unwinding of the discount[(2)] . | 1,823 | 2,741 | 2,815 | 2,346 | 3,005 |
| | 6,236 | 21,266 | 27,451 | 22,394 | 26,223 |
| Less: Amount capitalised in qualified assets. . . . . . | – | (9,501) | (13,030) | (11,908) | (9,026) |
| | 6,236 | 11,765 | 14,421 | 10,486 | 17,197 |

*Notes:*

(1) Our interest on other borrowings represent interest payment on a borrowing from The World Bank for financing the Group's tap water supply facilities and the unsecured borrowings from our shareholders.

(2) The unwinding of discount relates to the finance charge for provision of liabilities.

Our finance costs consisted primarily of interest expenses on bank borrowings and other borrowings. Our other borrowings were primarily borrowings from Xinglu Investment Group. For more details on our bank borrowings and debt, please refer to "— Indebtedness". Interest amounts incurred on borrowings used for construction and upgrade services of our tap water supply and wastewater treatment infrastructure were capitalised, which were nil, RMB9.5 million, RMB13.0 million and RMB9.0 million, for the year ended 31 December 2013, 2014 and 2015 and for the ten months ended 31 October 2016, respectively. Our weighted-average interest rate was 2.1%, 7.9%, 5.8% and 4.4% per annum as of 31 December 2013, 2014, 2015 and 31 October 2016.

**Income Tax Expense**

Our income tax expenses were RMB17.9 million, RMB21.2 million, RMB25.9 million and RMB21.3 million, for the year ended 31 December 2013, 2014 and 2015 and for the ten months ended 31 October 2016, respectively, representing effective tax rate of 16.9%, 15.5%, 15.2% and 15.1% during the same periods.

According to (i) the Notice of the Enterprise Income Tax for Implementation of Exploration and Development of Western Region (Notice of the State Administration of Taxation No. 12 [2012]) (《關於深入實施西部大開發戰略有關稅收政策問題的通知》) promulgated in April 2012 and effective from 1 January 2011 to 31 December 2020 and (ii) the Catalogue of Industries Encouraged to Develop in the Western Region (西部地區鼓勵類產業目錄) (Order of the National Development and Reform Commission No. 15) promulgated in

September 2014 and declared effective as of 1 January 2014, companies located in the western region of the PRC and engage in the business encouraged by the PRC government are entitled to the preferential EIT rate of 15% if the operating revenue of the encouraged business in a year accounted for more than 70% of the total income in that year. The encouraged industries in Sichuan Province included installation and services of tap water supply to rural areas, including urban pipeline network that extends to rural areas, and wastewater treatment for rural areas. During the Track Record Period, our Company and eight of our subsidiaries, which were located in the western region, were engaged in the encouraged businesses included in the related notice and catalogue and the relevant revenue for the fiscal years accounted for more than 70% of their total revenue, and as a result were entitled to the preferential EIT rate of 15%.

**Profit after Tax and Profit after Tax Margin**

Our profit after tax was RMB88.0 million, RMB115.5 million, RMB144.4 million and RMB120.2 million for the year ended 31 December 2013, 2014 and 2015 and for the ten months ended 31 October 2016, respectively. Profit after tax margin, which is calculated by dividing profit after tax by revenue for any given period, was 21.5%, 18.4%, 15.8% and 16.7% for the year ended 31 December 2013, 2014 and 2015 and for the ten months ended 31 October 2016, respectively. Our profit after tax margin largely decreased during the Track Record Period because of decreases in gross profit margins. For more details, please refer to the section "— Gross Profit and Gross Profit Margin".

## RESULTS OF OPERATIONS

### Ten Months Ended 31 October 2016 Compared with Ten Months Ended 31 October 2015

**Revenue**

Revenue decreased by 3.3% from RMB745.6 million for the ten months ended 31 October 2015 to RMB721.0 million for the ten months ended 31 October 2016.

***Tap water supply***

*Sales of tap water*

Revenue generated from sales of tap water increased by 8.6% from RMB134.5 million for the ten months ended 31 October 2015 to RMB146.1 million for the ten months ended 31 October 2016. The increase was primarily due to a growth in the sales volume from approximately 63.3 million tons for the ten months ended 31 October 2015 to approximately 68.1 million tons for the ten months ended 31 October 2016. Revenue generated from sales of tap water accounted for 18.0% and 20.3% of our total revenue for the ten months ended 31 October 2015 and 2016, respectively.

*Installation and maintenance services*

Revenue generated from installation and maintenance services increased by 6.7% from RMB106.7 million for the ten months ended 31 October 2015 to RMB113.8 million for the ten months ended 31 October 2016. The increase was partially due to an increase in installation projects for residential users we completed for the ten months ended 31 October 2016. Revenue generated from installation and maintenance service accounted for 14.3% and 15.8% of our total revenue for the ten months ended 31 October 2015 and 2016, respectively.

*Construction and upgrade on tap water supply infrastructure*

Revenue generated from construction and upgrade on tap water supply infrastructure decreased by 3.2% from RMB190.4 million for the ten months ended 31 October 2015 to RMB184.3 million for the ten months ended 31 October 2016. Such decrease was mainly due to a decrease in the amount of upgrade works completed for operational projects of water supply pipeline network and construction works of the pre-operational project of Qiancao Supply Plant II for the ten months ended 31 October 2016.

***Wastewater treatment***

*Operating services*

Revenue generated from operating services of wastewater treatment increased by 13.0% from RMB90.2 million for the ten months ended 31 October 2015 to RMB101.9 million for the ten months ended 31 October 2016. The increase was primarily due to the guaranteed minimum treatment tariff we received for Naxi Treatment Plant Phase II, Chengdong Treatment Plant and Chengnan treatment plant starting from July 2015, July 2016 and July 2016, respectively. Our total treatment volume was 37.5 million ton and 39.8 million ton for the ten months ended 31 October 2015 and 2016, respectively. Revenue generated from wastewater treatment operation accounted for 12.1% and 14.1% of our total revenue for the ten months ended 31 October 2015 and 2016, respectively.

*Interest income on receivables under service concession arrangements*

Interest income on receivables under service concession arrangements increased by 38.4% from RMB15.5 million for the ten months ended 31 October 2015 to RMB21.5 million for the ten months ended 31 October 2016. The increase was mainly due to the increase in receivables under concession arrangements as a result of the entitlement to the guaranteed minimum treatment tariff in respect of Chengdong Treatment Plant and Chengnan Treatment Plant commencing both in July 2016, following their trial operations.

*Construction and upgrade on wastewater treatment infrastructure*

Revenue generated from construction and upgrade on wastewater treatment infrastructure decreased by 26.5% from RMB208.4 million for the ten month ended 31 October 2015 to RMB153.3 million for the ten months ended 31 October 2016. The decrease was mainly because our construction of pre-operational projects of Chengdong Treatment Plant and Chengnan Treatment Plant was substantially complete prior to June 2016.

**Cost of Sales and Services**

Cost of sales and services decreased by 5.3% from RMB572.4 million for the ten months ended 31 October 2015 to RMB542.1 million for the ten months ended 31 October 2016.

***Tap water supply***

*Sales of tap water*

Cost of sales and services associated with sales of tap water increased by 17.4% from RMB101.3 million for the ten months ended 31 October 2015 to RMB118.9 million for the ten months ended 31 October 2016. The increase was primarily due to the increase in salaries and benefits of employees, cost of raw materials and water resource fee. The growth in cost of raw materials was generally attributable to the increase in supply volume for the ten months ended 31 October 2016. Cost of sales and services from tap water supply operations accounted for 17.7% and 21.9% of our total cost of sales and services for the ten months ended 31 October 2015 and 2016, respectively.

*Installation and maintenance services*

Cost of sales and services associated with installation and maintenance services increased by 24.0% from RMB23.8 million for the ten months ended 31 October 2015 to RMB29.5 million for the ten months ended 31 October 2016. The increase was mainly due to increase in the volume of installation and maintenance work we undertook.

*Construction and upgrade on tap water supply infrastructure*

Cost of sales and services from construction and upgrade on tap water supply infrastructure decreased by 3.2% from RMB189.9 million for the ten months ended 31 October 2015 to RMB183.9 million for the ten months ended 31 October 2016. The decrease was mainly due to a decrease in amount of upgrade work for operational projects of water supply pipeline network and construction work of pre-operational project of Qiancao Supply Plant II for the ten months ended 31 October 2016, while there was more construction done of Nanjiao Supply Plant II for the same period.

***Wastewater treatment***

*Operating service*

Cost of sales and services from wastewater treatment operating services increased by 15.4% from RMB49.1 million for the ten months ended 31 October 2015 to RMB56.6 million for the ten months ended 31 October 2016. Such increase was primarily attributable to increased provision for maintenance as we commenced trial operation at Naxi Treatment Plant Phase II, Chengdong Treatment Plant and Chengnan Treatment Plant in July 2015, July 2016 and July 2016, respectively. Cost of sales and services from wastewater treatment operating services accounted for 8.6% and 10.4% of our total cost of sales and services for the ten months ended 31 October 2015 and 2016, respectively.

*Construction and upgrade on wastewater treatment infrastructure*

Cost of sales and services from construction and upgrade on wastewater treatment infrastructure decreased by 26.5% from RMB208.3 million for the ten months ended 31 October 2015 to RMB153.1 million for the ten months ended 31 October 2016. The decrease was mainly due to our construction of pre-operational projects of Chengdong treatment plant and Chengnan treatment plant was substantially completed by June 2016.

**Gross Profit and Gross Profit Margin**

As a result of above, our gross profit remained stable at RMB173.3 million and RMB178.9 million for the ten months ended 31 October 2015 and 2016, respectively. Gross profit margin remained stable at 23.2% and 24.8% for the ten months ended 31 October 2015 and 2016, respectively.

***Tap water supply***

*Sales of tap water*

The gross profit for sales of tap water under tap water supply operations decreased by 18.2% from RMB33.2 million for the ten months ended 31 October 2015 to RMB27.2 million for the ten months ended 31 October 2016. The corresponding gross profit margin decreased from 24.7% for the ten months ended 31 October 2015 to 18.6% for the ten months ended 31 October 2016, primarily due to (i) a decrease in percentage of contribution from water usage by non-residential end users which had higher unit retail price; (ii) an increase in maintenance fee; (iii) an increase in salaries and benefits of employees; and (iv) amortisation of infrastructure of Beijiao Supply Plant Phase III after its completion of construction in May 2016.

*Installation and maintenance services*

The gross profit for installation and maintenance services increased by 1.8% from RMB82.8 million for the ten months ended 31 October 2015 to RMB84.3 million for the ten months ended 31 October 2016. The corresponding gross profit margin remained stable at 77.7% and 74.0% for the ten months ended 31 October 2015 and 2016, respectively.

*Construction and upgrade on tap water supply infrastructure*

The gross profit for construction and upgrade on tap water supply infrastructure remained stable at RMB420,000 and RMB424,000 for the ten months ended 31 October 2015 and 2016, respectively. Such gross profit was primarily derived from construction of pre-operational project of Nanjiao Supply Plant II. The corresponding gross profit margin was 0.2% and 0.2% for the ten months ended 31 October 2015 and 2016, respectively.

***Wastewater treatment***

*Operating service*

The gross profit for wastewater treatment operating services increased by 10.1% from RMB41.1 million for the ten months ended 31 October 2015 to RMB45.3 million for the ten months ended 31 October 2016. The corresponding gross profit margin decreased from 45.6% for the ten months ended 31 October 2015 to 44.4% for the ten months ended 31 October 2016. The decrease in gross profit margin was mainly due to (i) increased provision for maintenance as Naxi Treatment Plant Phase II, Chengdong Treatment Plant and Chengnan Treatment Plant started trial operation in July 2015, July 2016 and July 2016, respectively, and (ii) newly imposed VAT starting from July 2015 pursuant to the implementation of the Notice 78.

*Construction and upgrade on wastewater treatment infrastructure*

The gross profit for construction and upgrade on wastewater treatment infrastructure increased significantly, from RMB125,000 for the ten months ended 31 October 2015 to RMB171,000 for the ten months ended 31 October 2016, respectively. Such gross profit is determined by independent valuer, Savills, with reference to gross profit margin of the comparable projects in the relevant period. Such gross profit was primarily derived from the construction of Chengdong Treatment Plant and Chengnan Treatment Plant. The corresponding gross profit margin was 0.1% and 0.1% for the ten months ended 31 October 2015 and 2016, respectively.

**Other Income, Expenses, Gains and Losses, Net**

Other income, expenses, gains and losses, net increased significantly from RMB14.8 million for the ten months ended 31 October 2015 to RMB22.2 million for the ten months ended 31 October 2016. The increase was primarily attributable to a VAT refund starting from July 2015 pursuant to Notice 78 in connection with our wastewater treatment operations.

**Selling and Distribution Expenses**

Selling and distribution expenses increased by 8.0% from RMB6.9 million for the ten months ended 31 October 2015 to RMB7.4 million for the ten months ended 31 October 2016. The increase was primarily due to the increase in the salaries and benefits we paid to our employees and technicians, which in turn was a result of an expansion in our work force and to a lesser extent an increase in the salary of our employees.

**Administrative Expenses**

Administrative expenses increased by 8.4% from RMB30.7 million for the ten months ended 31 October 2015 to RMB33.3 million for the ten months ended 31 October 2016. The increase was mainly due to expansion of our work force.

**Finance Costs**

Finance costs increased by 64.0% from RMB10.5 million for the ten months ended 31 October 2015 to RMB17.2 million for the ten months ended 31 October 2016, primarily due to an increase in our borrowings and the decrease in interest capitalisation resulting from the commencement of trial operation of Chengdong Treatment Plant and Chengnan Treatment Plant.

**Income Tax Expense**

Income tax expenses were RMB21.4 million and RMB21.3 million for the ten months ended 31 October 2015 and 2016, representing effective tax rate of 15.3% and 15.1% during the same periods.

**Profit after Tax and Profit after Tax Margin**

As a result of above, profit after tax increased slightly by 1.4% from RMB118.5 million for the ten months ended 31 October 2015 to RMB120.2 million for the ten months ended 31 October 2016. Our profit after tax margin remained stable at 15.9% and 16.7% for the ten months ended 31 October 2015 and 2016.

**Year Ended 31 December 2015 Compared with Year Ended 31 December 2014**

**Revenue**

Revenue increased by 45.0% from RMB629.0 million for the year ended 31 December 2014 to RMB911.9 million for the year ended 31 December 2015.

***Tap water supply***

*Sales of tap water*

Revenue generated from sales of tap water increased by 10.2% from RMB148.2 million for the year ended 31 December 2014 to RMB163.3 million for the year ended 31 December 2015. The increase was primarily due to the increase of sales volume from approximately 69.2 million ton for the year ended 31 December 2014 to 76.2 million ton for the year ended 31 December 2015, which was in turn driven by the increase of number of end users accounts approximately from 219,000 as of 31 December 2014 to 241,000 as of 31 December 2015. Revenue generated from sales of tap water accounted for 23.5% and 17.9% of our total revenue for the year ended 31 December 2014 and 2015, respectively.

*Installation and maintenance services*

Revenue generated from installation and maintenance services increased by 21.2% from RMB108.8 million for the year ended 31 December 2014 to RMB131.8 million for the year ended 31 December 2015. The increase was partially due to the increase in the installation projects we performed for residential users for the year ended 31 December 2015. Revenue generated from installation and maintenance service accounted for 17.3% and 14.4% of our total revenue for the year ended 31 December 2014 and 2015, respectively.

*Construction and upgrade on tap water supply infrastructure*

Revenue generated from construction and upgrade on tap water supply infrastructure increased significantly from RMB96.0 million for the year ended 31 December 2014 to RMB236.4 million for the year ended 31 December 2015. The change was mainly due to the upgrade works of operational project of Beijiao Supply Plant Phase III and construction works of pre-operational project of Nanjiao Supply Plant II.

***Wastewater treatment***

*Operating services*

Revenue generated from wastewater treatment operating services increased by 16.5% from RMB93.6 million for the year ended 31 December 2014 to RMB109.0 million for the year ended 31 December 2015. The increase was primarily due to (i) the increase in treatment volume from 40.4 million ton for the year ended 31 December 2014 to 44.6 million tons for year ended 31 December 2015, and (ii) Erdaoxi Treatment Plant Phase II and Naxi Treatment Plant Phase II commencing trial operation in 2015. In April 2014 and July 2014 we acquired the Hejiang Treatment Plant and Gulin Treatment Plant, respectively which expanded our service area to Hejiang County and Gulin County. The acquired treatment plants were in operation for the full year of 2015 which contributed to the increase in our treatment volume in 2015. Revenue generated from wastewater treatment operations accounted for 14.9% and 12.0% of our total revenue for the year ended 31 December 2014 and 2015, respectively.

*Interest income on receivables under service concession arrangements*

Interest income on receivables under service concession arrangements increased by 20.4% from RMB15.7 million for the year ended 31 December 2014 to RMB19.0 million for the year ended 31 December 2015, primarily due to the increase in receivables under concession arrangements as a result of the entitlement to the guaranteed minimum treatment tariff in respect of Phase II of Naxi Treatment Plant commencing in July 2015, following their trial operations.

*Construction and upgrade on wastewater treatment infrastructure*

Revenue generated from construction and upgrade on wastewater treatment infrastructure increased by 51.4% from RMB166.7 million for the year ended 31 December 2014 to RMB252.4 million for the year ended 31 December 2015. The increase was mainly due to the construction of Chengdong Treatment Plant, Chengnan Treatment Plant, Phase II of Naxi Treatment Plant and Phase II of Erdaoxi Treatment Plant.

**Cost of Sales and Services**

Cost of sales and services increased by 53.1% from RMB456.8 million for the year ended 31 December 2014 to RMB699.4 million for the year ended 31 December 2015.

***Tap water supply***

*Sales of tap water*

Cost of sales and services associated with sales of tap water increased by 5.3% from RMB116.3 million for the year ended 31 December 2014 to RMB122.5 million for the year ended 31 December 2015. The increase was primarily due to increase in salaries and benefits of employees and increase in cost of raw materials. The increases in cost of raw materials were generally attributable to the increase in supply volume for the year ended 31 December 2015. Cost of sales and services from tap water supply operations accounted for 25.5% and 17.5% of our total cost of sales and services for the year ended 31 December 2014 and 2015, respectively.

*Installation and maintenance services*

Cost of sales and services associated with installation and maintenance services remained stable at RMB28.8 million and RMB29.2 million for the year ended 31 December 2014 and 2015, respectively. Cost of sales and services from installation and maintenance services accounted for 6.3% and 4.2% of our total cost of sales and services for the year ended 31 December 2014 and 2015, respectively.

*Construction and upgrade on tap water supply infrastructure*

Cost of sales and services from construction and upgrade on tap water supply infrastructure increased significantly from RMB95.6 million for the year ended 31 December 2014 to RMB235.9 million for the year ended 31 December 2015. The increase was mainly due to the upgrade works of operational project of Beijiao Supply Plant Phase III and construction works of pre-operational project of Nanjiao Supply Plant II.

***Wastewater treatment***

*Operating services*

Cost of sales and services from wastewater treatment operating services increased by 20.5% from RMB49.5 million for the year ended 31 December 2014 to RMB59.7 million for the year ended 31 December 2015. Such increase was primarily attributable to the increase in wastewater treatment volume for the year ended 31 December 2015. Cost of sales and services from wastewater treatment operations accounted for 10.8% and 8.5% of our total cost of sales and services for the year ended 31 December 2014 and 2015, respectively.

*Construction and upgrade on wastewater treatment infrastructure*

Cost of sales and services from construction and upgrade on wastewater treatment infrastructure increased by 51.4% from RMB166.6 million for the year ended 31 December 2014 to RMB252.2 million for the year ended 31 December 2015. The change was mainly due to the construction of pre-operational projects of Chengdong Treatment Plant, Chengnan Treatment Plant, Phase II of Naxi Treatment Plant and Phase II of Erdaoxi Treatment Plant.

**Gross Profit and Gross Profit Margin**

As a result of above, our gross profit increased by 23.4% from RMB172.2 million for the year ended 31 December 2014 to RMB212.5 million for the year ended 31 December 2015. Gross profit margin was 27.4% and 23.3% for the year ended 31 December 2014 and 2015, respectively. The decrease in gross profit margin was primarily due to increased level of contribution from construction and upgrade on infrastructure which had a lower profit margin as compared to other business segments.

***Tap water supply***

*Sales of tap water*

The gross profit for sales of tap water under tap water supply operations increased by 28.1% from RMB31.9 million for the year ended 31 December 2014 to RMB40.9 million for the year ended 31 December 2015. The corresponding gross profit margin increased from 21.5% for the year ended 31 December 2014 to 25.0% for the year ended 31 December 2015, primarily due to an increase in average utilisation rate of our water supply plants, which increased from approximately 89.9% for the year ended 31 December 2014 to 94.6% for the year ended 31 December 2015.

*Installation and maintenance services*

The gross profit for installation and maintenance services increased by 28.3% from RMB80.0 million for the year ended 31 December 2014 to RMB102.6 million for the year ended 31 December 2015. The corresponding gross profit margin increased from 73.5% for the year ended 31 December 2014 to 77.9% for the year ended 31 December 2015.

*Construction and upgrade on tap water supply infrastructure*

The gross profit for construction and upgrade on tap water supply infrastructure remained relatively stable and was RMB365,000 for the year ended 31 December 2014 and RMB518,000 for the year ended 31 December 2015. The gross profit was primarily derived from construction works of operational project of Beijiao Supply Plant Phase III and upgrade works of pre-operational project of Nanjiao Supply Plant II.

***Wastewater treatment***

*Operating services*

The gross profit for wastewater treatment operating services increased by 12.0% from RMB44.1 million for the year ended 31 December 2014 to RMB49.3 million for the year ended 31 December 2015. The corresponding gross profit margin decreased slightly from 47.1% for the year ended 31 December 2014 to 45.3% for the year ended 31 December 2015. The decrease in gross profit margin was primarily due to the newly imposed VAT starting from July 2015 pursuant to the implementation of the Notice 78.

*Construction and upgrade on wastewater treatment infrastructure*

The gross profit for construction and upgrade on wastewater treatment infrastructure increased by 52.0% from RMB100,000 to RMB153,000 for the year ended 31 December 2014 and 2015, respectively. The gross profit was primarily derived from the construction works of the pre-operational projects of Chengdong Treatment Plant, Chengnan Treatment Plant, Phase II of Naxi Treatment Plant and Phase II of Erdaoxi Treatment Plant. The corresponding gross profit margin also remained relatively stable at 0.1% and 0.1% for the year ended 31 December 2014 and 2015, respectively.

**Other Income, Expenses and Net Gains and Losses**

Other income, expenses and net gains and losses increased by 21.7% from RMB15.9 million for the year ended 31 December 2014 to RMB19.3 million for the year ended 31 December 2015. The increase was primarily attributable to a VAT refund starting from July 2015 pursuant to Notice 78 in connection with our wastewater treatment operations, which was partially offset by a decrease in government grant.

**Selling and Distribution Expenses**

Selling and distribution expenses increased by 25.1% from RMB6.6 million for the year ended 31 December 2014 to RMB8.3 million for the year ended 31 December 2015. The increase was primarily due to the increase in the salaries and benefits we paid to our employees and technicians, which in turn, was mainly a result of the expansion of our work force and to a lesser extent an increase in the salary of our employees.

**Administrative Expenses**

Administrative expenses increased by 17.6% from RMB32.9 million for the year ended 31 December 2014 to RMB38.7 million for the year ended 31 December 2015. The increase was primarily due to the increase in the salaries and benefits we paid to our management and administrative staff, which in turn, was mainly a result of the expansion of our work force. The increase in our work force was partly a result of the acquisition of the wastewater treatment plants.

**Finance Costs**

Finance costs increased by 22.6% from RMB11.8 million for the year ended 31 December 2014 to RMB14.4 million for the year ended 31 December 2015, primarily due to the increase in our interest costs which were in turn a result of the increase in our bank borrowings and our borrowings from Xinglu Investment Group. Our outstanding loan increased from RMB389.3 million as of 31 December 2014 to RMB490.9 million as of 31 December 2015, representing an increase of approximately 26.1% during the period. For details of our indebtedness at the given dates, please refer to "— Indebtedness" of this section.

**Income Tax Expense**

Income tax expenses were RMB21.2 million and RMB25.9 million for the year ended 31 December 2014 and 2015, respectively, representing effective tax rate of 15.5% and 15.2% during the same periods.

**Profit after Tax and Profit after Tax Margin**

As a result of above, profit after tax increased by 25.0% from RMB115.5 million for the year ended 31 December 2014 to RMB144.4 million for the year ended 31 December 2015. Profit after tax margin decreased from 18.4% for the year ended 31 December 2014 to 15.8% for the year ended 31 December 2015, which is largely due to the decrease in gross profit margin.

**Year Ended 31 December 2014 Compared with Year Ended 31 December 2013**

**Revenue**

Revenue increased by 53.5% from RMB409.8 million for the year ended 31 December 2013 to RMB629.0 million for the year ended 31 December 2014.

***Tap water supply***

*Sales of tap water*

Revenue generated from sales of tap water increased by 12.0% from RMB132.3 million for the year ended 31 December 2013 to RMB148.2 million for the year ended 31 December 2014. The increase was primarily due to the increase of sales volume from approximately 63.2 million ton for the year ended 31 December 2013 to 69.2 million ton for the year ended 31 December 2014, which was in turn driven by the increase of number of end user accounts from approximately 195,000 as of 31 December 2013 to 219,000 as of 31 December 2014. Revenue generated from tap water supply operations accounted for 32.3% and 23.5% of our total revenue for the year ended 31 December 2013 and 2014, respectively.

*Installation and maintenance services*

Revenue generated from installation and maintenance services increased by 27.2% from RMB85.5 million for the year ended 31 December 2013 to RMB108.8 million for the year ended 31 December 2014. The increase was primarily due to the increase in the volume of work we completed for the year ended 31 December 2014, which was in turn a result of the urban development in the relevant periods. Revenue generated from installation and maintenance services accounted for 20.9% and 17.3% of our total revenue for the year ended 31 December 2013 and 2014, respectively.

*Construction and upgrade on tap water supply infrastructure*

Revenue generated from construction and upgrade on tap water supply infrastructure increased by 4.0% from RMB92.3 million for the year ended 31 December 2013 to RMB96.0

million for the year ended 31 December 2014. Such increase was primarily attributable to the construction works of pre-operational project of Nanjiao Supply Plant II. Revenue from construction and upgrade on tap water supply infrastructure for the year ended 31 December 2013 consisted primarily of revenue from the upgrade works of our operational projects of pipeline network and certain initial cost for Phase III of Beijiao Supply Plant before construction started.

***Wastewater treatment***

*Operating services*

Revenue generated from wastewater treatment operating services increased by 20.5% from RMB77.6 million for the year ended 31 December 2013 to RMB93.6 million for the year ended 31 December 2014. The increase was primarily due to the increase in treatment volume, from 31.5 million ton for the year ended 31 December 2013 to 40.4 million ton for the year ended 31 December 2014. In February 2013 we acquired the Lu County Treatment Plant. In April 2014 and July 2014 we acquired the Hejiang Treatment Plant and Gulin Treatment Plant. Such acquisitions contributed to the increase in our treatment volume in 2014. Revenue generated from wastewater treatment accounted for 18.9% and 14.9% of our total revenue for the year ended 31 December 2013 and 2014, respectively.

*Interest income on receivables under service concession arrangements*

Interest income on receivable under service concession arrangements increased by 17.1% from RMB13.5 million for the year ended 31 December 2013 to RMB15.7 million for the year ended 31 December 2014, primarily due to the acquisition of the Hejiang Treatment Plant and Gulin Treatment Plant in 2014.

*Construction and upgrade on wastewater treatment infrastructure*

Revenue generated from construction and upgrade on wastewater treatment infrastructure increased substantially from RMB8.6 million for the year ended 31 December 2013 to RMB166.7 million for the year ended 31 December 2014, which was mainly due to the increase in receivables under concession arrangements as a result of the entitlement to the guaranteed minimum treatment tariff in respect of Hejiang Treatment Plant and Gulin Treatment Plant commencing in 2014 following their operation.

**Cost of Sales and Services**

Cost of sales and services increased by 70.3% from RMB268.2 million for the year ended 31 December 2013 to RMB456.8 million for the year ended 31 December 2014.

***Tap water supply***

*Sales of tap water*

Cost of sales and services associated with sales of tap water increased by 18.1% from RMB98.4 million for the year ended 31 December 2013 to RMB116.3 million for the year ended 31 December 2014. The increase was primarily due to increases in (i) salaries and benefits of employees; (ii) cost of electricity; and (iii) cost of raw materials. Such increases were generally attributable to the increase in headcount and in supply volume for the year ended 31 December 2014. Cost of sales and services from tap water supply operations accounted for 36.7% and 25.5% of our total cost of sales and services for the year ended 31 December 2013 and 2014, respectively.

*Installation and maintenance services*

Cost of sales and services associated with installation and maintenance services increased by 23.8% from RMB23.2 million for the year ended 31 December 2013 to RMB28.8 million for the year ended 31 December 2014. The increase was primarily attributable to the increase in the volume of installation and maintenance activities we undertook for the year ended 31 December 2014. Cost of sales and services from water supply network installation and connection accounted for 8.7% and 6.3% of our total cost of sales and services for the year ended 31 December 2013 and 2014, respectively.

*Construction and upgrade on tap water supply infrastructure*

Cost of sales and services from construction and upgrade on tap water supply infrastructure increased by 3.6% from RMB92.3 million for the year ended 31 December 2013 to RMB95.6 million for the year ended 31 December 2014, which was generally in line with the increase in the corresponding revenue from construction and upgrade on tap water supply infrastructure.

***Wastewater treatment***

*Operating services*

Cost of sales and services from wastewater treatment operating services increased by 8.6% from RMB45.6 million for the year ended 31 December 2013 to RMB49.5 million for the year ended 31 December 2014. Such increase was generally attributable to the increase in wastewater treatment volume for the year ended 31 December 2014. Cost of sales and services from wastewater treatment operating services accounted for 17.0% and 10.8% of our total cost of sales and services for the year ended 31 December 2013 and 2014, respectively.

*Construction and upgrade on wastewater treatment infrastructure*

Cost of sales and services from construction and upgrade on wastewater treatment infrastructure increased substantially from RMB8.6 million for the year ended 31 December 2013 to RMB166.6 million for the year ended 31 December 2014. The change was mainly due to the construction of pre-operational projects of Chengdong Treatment Plant, Chengnan Treatment Plant, Phase II of Erdaoxi Treatment Plant and Phase II of Naxi Treatment Plant.

**Gross Profit and Gross Profit Margin**

As a result of above, our gross profit increased by 21.6% from RMB141.6 million for the year ended 31 December 2013 to RMB172.2 million for the year ended 31 December 2014.

Gross profit margin was 34.6% and 27.4% for the year ended 31 December 2013 and 2014, respectively. The decrease in gross profit margin was primarily due to the the increase in attribution percentage of revenue from upgrade and construction activities which had low gross profit margin.

***Tap water supply***

*Sales of tap water*

The gross profit for sales of tap water decreased from RMB33.9 million for the year ended 31 December 2013 to RMB31.9 million for the year ended 31 December 2014. The corresponding gross profit margin decreased from 25.6% for the year ended 31 December 2013 to 21.5% for the year ended 31 December 2014, mainly due to an increase in salaries and benefits of employees, which is partially offset by an increase in utilisation rate of our water supply plants.

*Installation and maintenance services*

The gross profit for installation and maintenance services increased from RMB62.2 million for the year ended 31 December 2013 to RMB80.0 million for the year ended 31 December 2014. The corresponding gross profit margin increased slightly from 72.8% for the year ended 31 December 2013 to 73.5% for the year ended 31 December 2014.

*Construction and upgrade on tap water supply plants*

The gross profit for construction and upgrade on tap water supply infrastructure was nil for the year ended 31 December 2013 and RMB365,000 for the year ended 31 December 2014. The corresponding gross profit margin was nil for the year ended 31 December 2013 and 0.4% for the year ended 31 December 2014.

***Wastewater treatment***

*Operating services*

The gross profit for wastewater treatment operating services increased by 37.4% from RMB32.1 million for the year ended 31 December 2013 to RMB44.1 million for the year ended 31 December 2014. The corresponding gross profit margin increased from 41.3% for the year ended 31 December 2013 to 47.1% for the year ended 31 December 2014, which was primarily due to an increase in the average utilisation rate of our wastewater plants from approximately 83.3% for the year ended 31 December 2013 to 91.5% for the year ended 31 December 2014.

*Construction and upgrade on wastewater treatment infrastructure*

The gross profit for construction and upgrade on wastewater treatment infrastructure was nil for the year ended 31 December 2013 and RMB100,000 for the year ended 31 December 2014, and the corresponding gross profit margin was nil for the year ended 31 December 2013 and 0.1% for the year ended 31 December 2014.

**Other Income, Expenses, Gains and Losses, Net**

Other income, expenses, gains and losses, net increased significantly from RMB6.7 million for the year ended 31 December 2013 to RMB15.9 million for the year ended 31 December 2014. Other income, expenses, gain and losses, net for the year ended 31 December 2013 was adversely impacted by a net loss of RMB12.1 million on de-recognition of certain property, plant and equipment, investment properties and prepaid lease payments for infrastructure operating under concession arrangements. The loss was partially offset by a one-time government compensation by Hejiang County government in the amount of RMB5.7 million for our relocation of certain property, plant and equipment and loss on prepaid lease payments that have been incurred and expensed in previous years.

**Selling and Distribution Expenses**

Selling and distribution expenses increased by 12.4% from RMB5.9 million for the year ended 31 December 2013 to RMB6.6 million for the year ended 31 December 2014. The increase was primarily due to the increase in the salaries and benefits we paid to our employees and technicians primarily as a result of the expansion of our work force and to a lesser extent the increase in the salary of our employees.

**Administrative Expenses**

Administrative expenses increased by 8.5% from RMB30.3 million for the year ended 31 December 2013 to RMB32.9 million for the year ended 31 December 2014. The increase was primarily due to the increase in the salaries and benefits we paid to our management and administrative staff primarily as a result of the expansion of our work force.

**Finance Costs**

Finance costs increased by 88.7% from RMB6.2 million for the year ended 31 December 2013 to RMB11.8 million for the year ended 31 December 2014, primarily due to the increase in our interest expenses which were in turn a result of the increase in our borrowings from Xinglu Investment Group, which were RMB69.9 million and RMB349.4 million as of 31 December 2013 and 2014, respectively. Our finance costs was partially offset by the interest payment capitalised which was related to borrowings used for construction and upgrade services of tap water supply and wastewater treatment infrastructure. We did not have interest capitalisation in the year ended 31 December 2013.

**Income Tax Expense**

Income tax was RMB17.9 million and RMB21.2 million for the year ended 31 December 2013 and 2014, representing effective tax rate of 16.9% and 15.5% during the same periods. The higher effective tax rate for the year ended 31 December 2013 as compared to 2014 was primarily due to expenses not deductible for tax purposes which resulted in a tax effect of RMB1.9 million.

**Profit after Tax and Profit after Tax Margin**

As a result of above, profit after tax increased by 31.4% from RMB88.0 million for the year ended 31 December 2013 to RMB115.5 million for the year ended 31 December 2014. Profit after tax margin was 21.5% and 18.4% for the year ended 31 December 2013 and 2014, respectively.

## WORKING CAPITAL

The table below presents our current assets and current liabilities as of the dates indicated:

| | As of 31 December | | | As of 31 October | As of 31 January |
|---|---|---|---|---|---|
| | 2013 | 2014 | 2015 | 2016 | 2017 |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 (unaudited) |
| CURRENT ASSETS | | | | | |
| Inventories | 28,104 | 19,124 | 17,465 | 17,880 | 17,616 |
| Receivables under service concession arrangements | 529 | 2,509 | 4,821 | 10,848 | 11,556 |
| Amounts due from customers for contract works | 3,637 | 8,046 | 7,696 | 8,290 | 8,644 |
| Trade receivables | 58,433 | 68,753 | 71,326 | 143,610 | 78,771 |
| Prepaid lease payments | 836 | 1,607 | 1,558 | 1,637 | 1,637 |
| Prepayments and other receivables | 14,230 | 10,411 | 16,192 | 28,004 | 40,659 |
| Restricted bank balances | – | – | – | – | 5,000 |
| Bank balances and cash | 97,121 | 170,159 | 289,309 | 366,298 | 467,254 |
| | 202,890 | 280,609 | 408,367 | 576,567 | 631,137 |
| CURRENT LIABILITIES | | | | | |
| Borrowings | 74,749 | 354,895 | 251,412 | 303,674 | 319,674 |
| Trade payables | 12,005 | 8,331 | 5,313 | 10,937 | 8,819 |
| Advance from customers and other payables | 230,768 | 161,066 | 218,702 | 310,081 | 290,149 |
| Provision | 15,241 | 14,096 | 10,639 | 15,320 | 13,505 |
| Current income tax liabilities | 35,937 | 34,238 | 37,633 | 19,941 | 18,993 |
| | 368,700 | 572,626 | 523,699 | 659,953 | 651,140 |
| NET CURRENT LIABILITIES | (165,810) | (292,017) | (115,332) | (83,386) | (20,003) |

We had net current liabilities of RMB20.0 million as of 31 January 2017, representing a 76.0% decrease from our net current liabilities of RMB83.4 million as of 31 October 2016. The decrease was primarily because we borrowed a RMB90.0 million bank borrowing in December 2016, not repayable in 2017.

We had net current liabilities of RMB83.4 million as of 31 October 2016, representing a 27.7% decrease from our net current liabilities of RMB115.3 million as of 31 December 2015. The decrease was primarily due to a RMB77.0 million increase in bank balances and cash, a RMB72.3 million increase in trade receivables, a decrease of RMB17.7 million in current income tax liabilities, a RMB11.8 million increase in prepayments and other receivables, and an increase of RMB6.0 million in receivables under service concession arrangements, partially offset by a RMB91.4 million increase in advance from customers and other payables, an increase of RMB52.3 million in borrowings, and a RMB5.6 million increase in trade payables.

We had net current liabilities of RMB115.3 million as of 31 December 2015, a material decrease from our net current liabilities of RMB292.0 million as of 31 December 2014. The decrease was primarily due to an increase of RMB119.2 million in bank balances and cash and a decrease of RMB103.5 million in borrowings, partially offset by an increase of RMB57.6 million in advance from customers and other payables mainly resulting from our construction activities.

We had net current liabilities of RMB292.0 million as of 31 December 2014, representing a 76.1% increase from our net current liabilities of RMB165.8 million as of 31 December 2013. The increase was primarily due to an increase of RMB280.1 million in borrowings, partially offset by a decrease of RMB69.7 million in advance from customers and other payables, which was primarily attributable to a decrease in dividends payable to Xinglu Investment Group as we declared a RMB83.3 million dividend payment in 2014, and an increase of RMB73.0 million in bank balances and cash.

For further details of the descriptions of the financial position items above, please see "— Description of Selected Consolidated Statements of Financial Position Items".

Our current liabilities were primarily a result of (i) advance from customers and other payables, which was mainly advance payment from tap water customers for installation services and construction payables and deposits received and (ii) our short-term bank and other borrowings. Our Directors plan to take systematic steps to restructure our short-term and long-term loans composition, especially by increasing the amount of long-term loans applied to construction and upgrade projects, in order to improve our net current liabilities position. Our Directors confirm that we did not have any material defaults in payment of bank borrowings and we did not have any breach of financial covenants during the Track Record Period. 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.

Taking into account the financial resources available to us, including our cash and cash equivalents on hand, cash generated from operations, unutilised bank facilities and additional bank and debt financings we may obtain, as well as estimated net proceeds from Global Offering, our Directors believe, and the Sole Sponsor concurs, that we have sufficient working capital to meet our financial requirements for at least the next 12 months from the date of this prospectus.

## DESCRIPTION OF SELECTED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION ITEMS

### Property, Plant and Equipment

Our property, plant and equipment was RMB51.9 million, RMB35.5 million, RMB39.7 million and RMB37.2 million as of 31 December 2013, 2014 and 2015 and 31 October 2016, respectively, which consisted primarily of office building, equipments and vehicles. Property, plant and equipment decreased from RMB51.9 million as of 31 December 2013 to RMB35.5 million as of 31 December 2014, mainly due to depreciation and the carve-out of certain non-core property, plant and equipment to Luzhou Assets Management as approved by Luzhou SASAC in June 2014.

### Intangible Assets

Intangible assets represented assets related to our operations under the relevant concession agreements whereby our right to receive payment is contingent on the extent of the public usage of our service.

In the application of IFRIC 12 on our service concession arrangements, we separated our receivables under service concession arrangements from intangible assets based on the estimated guaranteed wastewater tariff with the remainder as intangible assets. Our receivables under service concession arrangements and intangible assets are then carried at amortised cost and at cost less amortisation, respectively.

Our intangible assets recognised under service concession arrangement for projects that have yet to be in operation were RMB75.2 million, RMB260.9 million, RMB605.6 million and RMB387.1 million as of 31 December 2013, 2014 and 2015 and 31 October 2016, respectively, which have been allocated to individual cash generated units ("**CGUs**") in our tap water supply and wastewater treatment segments.

At the end of each reporting period, we review the carrying amounts of our intangible assets and perform impairment test for those yet to be in operation annually to determine whether there is any indication that those assets have suffered an impairment loss in accordance with IAS 36.

The Group engaged an independent valuer, Savills, to estimate the value in use ("**VIU**") of these intangible assets by discounting the estimated future cash flows to their present value using a pre-tax discount rate range between 13.7% and 16.8% in the Track Record Period that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted. The discount rate applied for impairment testing is independent of the Group's capital structure and the way the Group financed the purchase of the asset. The components of discount rates for the respective reporting date are shown below:

***Components of discount rates***

| | 31 December 2013 | 31 December 2014 | 31 December 2015 | 31 October 2016 |
|---|---|---|---|---|
| Risk-free rate | 4.6% | 3.7% | 2.9% | 2.7% |
| Cost of equity | 14.7% | 14.3% | 15.3% | 14.8% |
| Cost of debt (pre-tax) | 6.6% | 6.2% | 4.9% | 4.9% |
| Proportion of debt | 29.9% | 24.8% | 25.9% | 27.5% |
| Proportion of equity | 70.1% | 75.2% | 74.1% | 72.5% |
| Post tax discount rate (WACC) | 12.0% | 12.0% | 12.0% | 12.0% |
| Pre tax discount rate | 14.6%–16.3% | 14.9%–16.0% | 15.2%–16.3% | 13.7%–16.8% |

The estimates of the future cash flows of each of the cash generating unit are primarily based on cash flow projections based on financial budgets of these CGUs approved by the Directors covering a five-year period incorporating the respective terms of the concession arrangements, the capacity, capacity utilisation, tariff, cost of sales and services, other income, operating cost and expenses, maintenance obligation, working capital movement. No growth on cash flows of CGUs beyond the five-year period is assumed. The major parameters and assumptions that the Company has considered in the annual impairment testing of the intangible assets are the current and expected capacity utilisation of the Group's water supply plants and wastewater treatment plants at the current tariff and past performance of each of respective cash generating units ("**CGU**"s), the existing government policies, including preferential tax treatment, applicable to the relevant operation and composite annual revenue growth rate of 3% to 8% between 2016 and 2020 applied to each of respective CGUs within the tap water supply segment (except for Beijiao Supply Plant which has a higher growth rate in 2017 and 2018 due to increase in capacity after the completion of construction of Phase III in May 2016) reflecting the forecast growth in usage from the increase in Luzhou's urban area and population based on the Thirteenth Five-year Plan of Luzhou as discussed in the Frost & Sullivan Report. Our revenue from wastewater treatment plants will slightly grow based on design capacity and minimum guaranteed volume from 2016 to 2020 except for Erdaoxi Treatment Plant Phase II, Naxi Treatment Plant Phase II, Chengdong Treatment Plant and Chengnan Treatment Plant which have higher growth rates due to entitlement of minimum guaranteed revenue stream after they commenced trial operation during 2015–2016. No long term inflation is applied to the forecast cash flow for conservative purpose. It is because any price increase would require approval from the relevant authority, and that any cost increase may be offset by price increase as permitted in our concession arrangements which is discussed in the pricing sections. For more details on pricing, please refer to "Our Business — Our Waste Water Treatment Services — Pricing". The future cash flows are projected from each reporting date to the respective expiry date of the service concession arrangement. Based on the results of these estimates, the VIU of the Group's intangible assets are above their carrying amounts at the end of each of the Track Record Period. Moreover, our major assumptions in the value in use calculations included, amongst others, the timing of paying the VAT and receiving the VAT refunds and the amounts of the VAT and the VAT refunds, and we may suffer impairment losses on intangible assets in respect of our projects according to our value in use calculations, if we are entitled to lesser amount of VAT refunds, or if we are required to pay higher VAT rate, to pay VAT earlier or to receive VAT refunds later than as provided by the laws and regulations applicable to the VAT. The timing of our VAT refund is subject to the relevant administrative process. During the Track Record Period, our VAT refund was generally settled within three months from the day of the VAT payment corresponding to the relevant refund.

Intangible assets were RMB457.2 million, RMB702.6 million, RMB1,070.9 million and RMB966.7 million as of 31 December 2013, 2014 and 2015 and 31 October 2016, respectively. Our intangible assets increased from RMB457.2 million as of 31 December 2013 to RMB702.6 million as of 31 December 2014 mainly because of installation costs incurred for the installation or construction of (i) new tap water pipelines, (ii) Nanjiao Supply Plant II and Phase III of Beijiao Supply Plant II. Our intangible assets further increased to RMB1,070.9 million as of 31 December 2015, primarily as a result of installation or construction of (i) new tap water pipelines, (ii) Nanjiao Supply Plant II and (iii) Chengdong Treatment Plant and Chengnan Treatment Plant. The cost of the aforesaid infrastructure we incurred by constructing or acquiring for the operations under concession arrangements are accounted for as intangible assets. Our intangible assets decreased from RMB1,070.9 million as of 31 December 2015 to RMB966.7 million as of 31 October 2016, primarily as a result of the commencement of trial operation of Chengdong Treatment Plant and Chengnan Treatment Plant in July 2016, as we transferred the portion of RMB389.6 million representing the extent that we have a contractual right to receive cash from the grantors to our receivables under service concession arrangements. For details of our accounting treatment regarding the recognition of our intangible assets and receivables under service concession arrangements, please refer to "— Accounting Treatment of Our Service Concession Arrangements — Summary of accounting treatment for our BOO and TOO Projects" and "— Critical Accounting Policies — Movements of our Intangible Assets and Receivables under Service Concession Arrangements during the Track Record Period".

**Receivables under Service Concession Arrangements**

Receivables under service concession arrangements are related to the minimum treatment volume mechanism in our wastewater treatment operation and are recognised to the extent that we have an unconditional right to receive cash or financial asset from the local governments as grantors of the relevant concession rights for the consideration paid and payable by us to the local governments.

In the application of IFRIC 12 on our service concession arrangements, we separated our receivables under service concession arrangements from intangible assets based on the estimated guaranteed wastewater tariff with the remainder as intangible assets. Our receivables under service concession arrangements and intangible assets are then carried at amortised cost and at cost less amortisation, respectively.

The receivables under service concession arrangements were RMB229.3 million, RMB294.5 million, RMB390.8 million and RMB774.7 million as of 31 December 2013, 2014 and 2015 and 31 October 2016, respectively, among which RMB228.7 million, RMB292.0

million, RMB386.0 million and RMB763.8 million, were classified as non-current, respectively. Such receivables increased from RMB390.8 million as of 31 December 2015 to RMB774.7 million as of 31 October 2016, primarily due to the commencement of trial operation of Chengdong Treatment Plant and Chengnan Treatment Plant in July 2016, as we transferred the portion of RMB389.6 million representing the extent that we have a contractual right to receive cash from the grantors to our receivables under service concession arrangements. Pursuant to the relevant concession agreements and service agreements for these two plants, the local governments guarantee to pay us based on the relevant minimum treatment volumes. Such receivables increased by 32.7% from RMB294.5 million as of 31 December 2014 to RMB390.8 million as of 31 December 2015 primarily due to commencement of operations of Phase II of Erdaoxi Treatment Plant and Phase II of Naxi Treatment Plant. Such receivables increased by 28.5% from RMB229.3 million as of 31 December 2013 to RMB294.5 million as of 31 December 2014, primarily attributable to an increase in outstanding receivables accrued as a result of the acquisition of the Hejiang Treatment Plant and Gulin Treatment Plant in 2014. Such receivables increased by 189.2% from RMB79.3 million as of 1 January 2013 to RMB229.3 million as of 31 December 2013, primarily attributable to the recognition of receivables resulting from the establishment of the relevant service concession arrangements of Yaerdang Treatment Plant and Erdaoxi Treatment Plant Phase I and the acquisition of the Lu County Treatment Plant in 2013 with service concession arrangement established. Pursuant to the relevant concession agreements and service agreements for our wastewater treatment plants, the local governments guarantee to pay us based on the relevant minimum treatment volumes.

Receivables under service concessions arrangements are accounted for as financial assets at amortised cost under IAS 39. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial assets, the estimated future cash flows of the investment have been affected.

For financial assets, objective evidence of impairment could include:

- Significant financial difficulty of the issuer or counterparty; or
- Breach of contract, such as a default or delinquency in interest or principal payments; or
- It is becoming probable that the borrower will enter bankruptcy or financial re-organisation.

Given (i) our counterparties in the receivables under service concessions arrangements are the local governmental bureau in which the default risk is generally perceived to be low; (ii) there was no default in payments during the Track Record Period; and (iii) the strict enforcement of a sound credit policy by the Group, the Directors consider that there was no objective evidence of impairment in the Track Record Period as such, there was no impairment in our receivables under service concessions arrangements during the Track Record Period.

**Inventories**

Our inventories consisted primarily of raw materials, including water pipes and other gadgets related to tap water supply and pipeline installation and maintenance, and was RMB28.1 million, RMB19.1 million, RMB17.5 million and RMB17.9 million, as of 31 December 2013, 2014 and 2015 and 31 October 2016, respectively. The table below sets forth the breakdown of our inventory as of the indicated dates:

| | As of 31 December | | | | | | As of 31 October | |
|---|---|---|---|---|---|---|---|---|
| | 2013 | | 2014 | | 2015 | | 2016 | |
| | RMB'000 | % | RMB'000 | % | RMB'000 | % | RMB'000 | % |
| Raw materials | 26,923 | 95.8 | 17,625 | 92.2 | 15,887 | 91.0 | 16,219 | 90.7 |
| Consumables | 811 | 2.9 | 1,102 | 5.8 | 1,119 | 6.4 | 1,192 | 6.7 |
| Finished goods | 370 | 1.3 | 397 | 2.0 | 459 | 2.6 | 469 | 2.6 |
| **Total** | 28,104 | 100.0 | 19,124 | 100.0 | 17,465 | 100.0 | 17,880 | 100.0 |

As of 31 January 2017, approximately RMB17.0 million, representing 95.1% of inventories as of 31 October 2016 has been used. The table below sets forth the average turnover days of our inventories for the indicated periods:

| | Year ended 31 December | | | Ten months ended 31 October |
|---|---|---|---|---|
| | 2013 | 2014 | 2015 | 2016 |
| Average inventory turnover days(1) | 71 | 44 | 32 | 26 |

*Note:*

(1) Calculated using the average of opening and closing balance of the inventory for a period divided by the cost of revenue (excluding cost of sales and services from construction and upgrade on tap water supply or on wastewater treatment infrastructure) of the period and multiplied by the number days in the period. We excluded cost of sales and services from our construction and upgrade services because our inventories are primarily applied to our sales of tap water and installation and maintenance services and wastewater operating services. We believe exclusion of such costs from the calculation of our average inventory turnover days is a more accurate reflection of our operation.

Our average inventory turnover days decreased from 71 days to 44 days for the year ended 31 December 2013 and 2014, respectively. The decrease was primarily a result of our enhanced policy on inventory management. Our average inventories turnover days decreased to 32 days for the year ended 31 December 2015 mainly because we made a scheduled deliveries according to project demands prior to 31 December 2015, which lead to lower inventory level as of 31 December 2015. The average inventory turnover days for the ten months ended 31 October 2016 was reduced to 26 days, primarily as a result of our enhanced internal control over inventory.

**Trade Receivables**

Our trade receivables were RMB58.4 million, RMB68.8 million, RMB71.3 million and RMB143.6 million, as of 31 December 2013, 2014 and 2015 and 31 October 2016, respectively. Our trade receivables consisted primarily of receivables in tap water from our end users, as well as receivables from wastewater treatment projects from local governments. We grant credit to certain local government customers with whom we have established long-term relationship. Generally, the credit term is within three months. As of 31 January 2017, approximately RMB125.0 million, representing 87.1% of trade receivables as of 31 October 2016 has been settled.

The table below sets forth the aging analysis of our trade receivables based on the invoice date as of the indicated dates:

| | As of 31 December | | | | | | As of 31 October | |
|---|---|---|---|---|---|---|---|---|
| | 2013 | | 2014 | | 2015 | | 2016 | |
| | RMB'000 | % | RMB'000 | % | RMB'000 | % | RMB'000 | % |
| Within three months | 52,961 | 90.6 | 31,582 | 45.9 | 54,274 | 76.1 | 95,221 | 66.3 |
| Between four months and six months | 4,196 | 7.2 | 14,457 | 21.0 | 8,294 | 11.6 | 19,922 | 13.9 |
| Between seven and 12 months | 561 | 1.0 | 21,920 | 31.9 | 1,256 | 1.8 | 21,026 | 14.6 |
| Over one year | 715 | 1.2 | 794 | 1.2 | 7,502 | 10.5 | 7,441 | 5.2 |
| **Total** | 58,433 | 100.0 | 68,753 | 100.0 | 71,326 | 100.0 | 143,610 | 100.0 |

As of 31 December 2013, 2014 and 2015 and as of 31 October 2016, impairment allowance was RMB1.0 million, RMB0.9 million, RMB1.4 million and RMB1.4 million, and accounted for 1.7%, 1.3%, 2.0% and 1.0% of our total trade receivables on the same date, respectively. Trade receivables past due but not impaired related to a number of customers for who have good repayment records and have no recent history of default. Based on past experience, our Directors 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 after detailed assessment of individual balances by the Directors. We do not hold any collateral or other credit enhancements over these balances.

The table below sets forth the average turnover days of our trade receivables for the indented periods.

| | Year ended 31 December | | | Ten months ended 31 October |
|---|---|---|---|---|
| | **2013** | **2014** | **2015** | **2016** |
| Average trade receivables turnover days[(1)] | 50 | 63 | 60 | 85 |

*Note:*

(1) Calculated using the average of opening and closing balance of the trade receivables for a period divided by the revenue (excluding our revenue from construction and upgrade on tap water supply and wastewater treatment infrastructure) of the period and multiplied by the number days in the period. We excluded revenue from our construction and upgrade of infrastructure because we primarily incur receivables from our sales of tap water and installation and maintenance services in tap water supply operations and treatment tariff in wastewater treatment operations. We believe exclusion of revenue from our construction and upgrade services is a more accurate reflection of our actual trade receivables condition.

Our average trade receivables turnover days was 50 days, 63 days, 60 days and 85 days for the year ended 31 December 2013, 2014 and 2015 and the ten months ended 31 October 2016, respectively. The increase in our trade receivables turnover days in 2014 from 2013 mainly resulted from the consolidation of results of operations of our newly acquired wastewater treatment plants, namely the Hejiang Treatment Plant and the Gulin Treatment Plant, in 2014. We consolidated revenue generated from such plants only for a portion of the year but calculated the turn-over days based on the receivables accumulated for the whole year as of the year end. For the year ended 31 December 2015, our average trade receivables turnover days decreased to 60 days primarily as a result of our enhanced management policies on receivables collection. Our average trade receivables turnover days increased to 85 days for the ten months ended 31 October 2016 mainly as a result of delay from the relevant government authorities in settling our outstanding trade receivables, particularly in connection with the outstanding guaranteed minimum treatment tariff relating to Phase II of Naxi Treatment Plant, Chengdong Treatment Plant, and Chengnan Treatment Plant as of 31 October 2016. In November 2016, the relevant government authorities approved to pay us the guaranteed minimum treatment tariff pursuant to the relevant concession agreements. In addition, such increase in our average trade receivables turnover days was also due to the temporary postponement of settlement of outstanding balances by one of our governmental customers due to change of payment procedures.

**Trade Payables**

Our trade payables were RMB12.0 million, RMB8.3 million, RMB5.3 million and RMB10.9 million, as of 31 December 2013, 2014 and 2015 and 31 October 2016. During the Track Record Period, the majority of our trade and bill payables were payables due to suppliers for raw materials and construction related payables. As of 31 January 2017, approximately RMB10.6 million, representing 96.7% of trade payables as of 31 October 2016 has been settled.

The following table sets forth the aging analysis of our trade payables as of the dates indicated:

| | At 31 December | | | At 31 October |
|---|---|---|---|---|
| | 2013 | 2014 | 2015 | 2016 |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| Within six months | 10,882 | 5,926 | 4,027 | 6,809 |
| Between seven months and 12 months | 84 | 1,157 | 76 | 1,122 |
| Over one year | 1,039 | 1,248 | 1,210 | 3,006 |
| | 12,005 | 8,331 | 5,313 | 10,937 |

The table below sets forth the average turnover days of our trade payables for the indicated periods:

| | Year ended 31 December | | | Ten months ended 31 October |
|---|---|---|---|---|
| | 2013 | 2014 | 2015 | 2016 |
| Average trade payables turnover days(1) | 37 | 19 | 12 | 12 |

*Note:*

(1) Calculated using the average of opening and closing balance of the trade payables for a period divided by the cost of sales and services of the period (excluding our cost of sales and services from construction and upgrade on tap water supply and wastewater treatment infrastructure) and multiplied by the number of days in the period. We excluded cost of sales and services from our construction and upgrade services because our accounts payable include payables incurred from our sales of tap water and installation and maintenance services and wastewater operating services, while our payables incurred in relation to our construction and upgrade services are included in the other payables. We believe exclusion of such cost of sales and services is a more accurate reflection of our actual trade payables condition.

Our average turnover days of the current portion of the trade payables was 37 days, 19 days, 12 days and 12 days for the year ended 31 December 2013, 2014 and 2015 and the ten months ended 31 October 2016, respectively. Our trade payables turnover days decreased in 2014 from 2013 mainly as a result of us generally making the payments earlier. Our trade payables turnover days decreased in 2015 primarily because of our change in payment methods to our suppliers as we ceased to withhold cash retention on each batch of materials or products received, and instead receive a lump sum cash guarantee from the suppliers as determined based on the previous year's total amount supplied, and our payables decreased accordingly. Our average trade payables turnover days for the ten months ended 31 October 2016 remained stable at 12 days compared to the year ended 31 December 2015.

The table below sets forth the average turnover days of our trade and construction payables taking into account of the construction service payables for the indicated periods:

| | Year ended 31 December | | | Ten months ended 31 October |
|---|---|---|---|---|
| | 2013 | 2014 | 2015 | 2016 |
| Average trade and construction payables turnover days[(1)] | 39 | 32 | 40 | 83 |

*Note:*

(1) Calculated using the average of opening and closing balance of the trade payables and construction payables and deposits received (as included in advance from customers and other payables) for a period divided by the cost of sales and services of the period (including our cost of sales and services from construction and upgrade on tap water supply and wastewater treatment infrastructure) and multiplied by the number of days in the period.

Our average turnover days of trade and construction payables increased from 40 days for the year ended 31 December 2015 to 83 days for the ten months ended 31 October 2016. The increase was primarily because of our increased payables incurred in relation to various tap water supply and wastewater treatment projects, including Chengdong Treatment Plant and Chengnan Treatment Plant.

**Deferred Revenue**

Our deferred revenue was RMB115.5 million, RMB121.0 million, RMB127.3 million and RMB123.5 million as of 31 December 2013, 2014 and 2015 and 31 October 2016, respectively. Deferred revenue arose from government grant to subside our installation projects and renovation of tap water supply and wastewater treatment plants. The increase in deferred revenue from RMB115.5 million as of 31 December 2013 to RMB 121.0 million as of 31 December 2014, and further to RMB127.3 million as of 31 December 2015 was mainly due to the increase in balance arising from government grant for our installation and construction projects as a result of our business expansion.

**Advance from Customers and other Payables**

The table below sets forth the breakdown of our advance from customers and other payables and as a percentage of the total advance from customers and other payables as of the indicated dates:

| | As of 31 December | | | | | | As of 31 October | |
|---|---|---|---|---|---|---|---|---|
| | 2013 | | 2014 | | 2015 | | 2016 | |
| | RMB'000 | % | RMB'000 | % | RMB'000 | % | RMB'000 | % |
| Advance from customers | 34,434 | 14.9 | 27,922 | 17.3 | 32,678 | 14.9 | 29,061 | 9.4 |
| Wages and welfare payable | 20,165 | 8.7 | 21,246 | 13.2 | 18,649 | 8.5 | 16,867 | 5.4 |
| Dividends payable to immediate holding company of the Company | 85,383 | 37.0 | – | – | 315 | 0.1 | – | – |
| Dividends payable to non-controlling shareholders of subsidiaries | 11,112 | 4.8 | 9,562 | 5.9 | 11 | – | – | – |
| Due to fellow subsidiaries | 294 | 0.1 | 439 | 0.3 | 864 | 0.4 | – | – |
| Construction payables and deposits received | 18,859 | 8.2 | 39,885 | 24.8 | 99,097 | 45.4 | 182,258 | 58.8 |
| Payable for purchases of wastewater treatment plants | 12,656 | 5.5 | 12,386 | 7.7 | 12,386 | 5.7 | 9,386 | 3.0 |
| Payables to governmental bureau | 33,366 | 14.5 | 39,272 | 24.4 | 36,489 | 16.7 | 41,252 | 13.3 |
| Other Payables | 9,090 | 3.9 | 8,830 | 5.5 | 12,213 | 5.6 | 21,369 | 6.9 |
| Other taxes payable | 3,688 | 1.6 | 1,514 | 0.9 | 6,000 | 2.7 | 9,888 | 3.2 |
| Interest payable | 1,721 | 0.8 | 10 | – | – | – | – | – |
| **Total** | 230,768 | 100.0 | 161,066 | 100.0 | 218,702 | 100.0 | 310,081 | 100.0 |

Advance from customers and other payables mainly included (i) advance from customers which was mainly advance payment from tap water customers for installation services; (ii) wages and welfare payables, which consisted primarily of performance-based incentives not yet paid out to employees; (iii) construction payables and deposit received consisted primarily of prepayment made to us by subcontractors in connection with construction and upgrade of infrastructure projects; (iv) dividend payables to our Shareholders; and (v) our payables to governmental bureau include garbage disposal fee, wastewater treatment fees collected from tap water end users on behalf of, and payable to, the relevant local government authorities. During the Track Record Period, our advance from customers and other payables also include other taxes payable, including VAT payables when we recognise revenue that are subject to VAT.

The decrease in advance from customers and other payables from RMB230.8 million as of 31 December 2013 to RMB161.1 million as of 31 December 2014 was primarily due to the decrease in (i) dividends payable to Xinglu Investment Group which was a result of us making the payment in 2014 and (ii) advance from customers which was in line with the schedules of installation projects, partially offset by (iii) construction payables and deposits received from subcontractors for the performance of construction and upgrade projects, which in turn related to an increase in our construction activities and (iv) an increase in other payables which was in line with our business expansion.

The increase in advance from customers and other payables from RMB161.1 million as of 31 December 2014 to RMB218.7 million as of 31 December 2015 were mainly because of the increase in (i) advance from customers, which was in line with our business expansion, and (ii) construction payables and deposits received, which in turn was in line with the growth in our construction activities. Advance from customers and other payables increased from RMB218.7 million as of 31 December 2015 to RMB310.1 million as of 31 October 2016 was primarily attributable to increase in (i) construction payables and deposits received, which in turn is a result of construction work done on Chengdong Treatment Plant and Chengnan Treatment Plant in first half of 2016, (ii) other taxes payable resulting from the guaranteed minimum treatment tariff received in respect of Naxi Treatment Plant Phase II, Chengdong Treatment Plan and Chengnan Treatment Plant and (iii) other payables, which was partially attributable to payable listing expenses, partially offset by decrease in (i) advance from customers, (ii) wages and welfare payable and (iii) payable for purchases of wastewater treatment plants.

## LIQUIDITY AND CAPITAL RESOURCES

We finance our liquidity requirements primarily through cash flow generated from operating activities and proceeds from interest-bearing bank loans and other borrowings. Our primary uses of cash include capital expenditures on property, plant and equipment and servicing indebtedness.

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

| | Year ended 31 December | | | Ten months ended 31 October | |
|---|---|---|---|---|---|
| | 2013 | 2014 | 2015 | 2015 | 2016 |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 (unaudited) | RMB'000 |
| Net cash generated from operating activities | 137,702 | 144,117 | 197,453 | 172,631 | 115,947 |
| Net cash used in investing activities | (110,240) | (352,840) | (430,368) | (295,760) | (246,833) |
| Net cash (used in)/generated from financing activities | (60,878) | 281,761 | 352,065 | 165,171 | 207,875 |
| Net (decrease)/increase in cash and cash equivalents | (33,416) | 73,038 | 119,150 | 42,042 | 76,989 |
| Cash and cash equivalents at the beginning of the year | 130,537 | 97,121 | 170,159 | 170,159 | 289,309 |
| Cash and cash equivalent at end of the period | 97,121 | 170,159 | 289,309 | 212,201 | 366,298 |

### Net Cash Generated from Operating Activities

We generated net cash of RMB115.9 million for the ten months ended 31 October 2016. Net cash generated from operating activities was primarily attributable to (i) operating cash inflow of RMB179.8 million, (ii) increase in provision of RMB32.1 million and (iii) increase in trade and other payables, advance from customers of RMB8.1 million, partially offset by (iv) an increase in trade and other receivables and prepayments of RMB68.5 million and (v) income tax paid of RMB40.3 million.

We generated net cash of RMB197.5 million for the year ended 31 December 2015. Net cash generated from operating activities was primarily attributable to (i) operating cash inflow of RMB204.3 million and as our contractual obligations to maintain and restore our facilities increased alongside the increase in our facilities, partially offset by (ii) income tax paid of RMB22.5 million.

We generated net cash of RMB144.1 million for the year ended 31 December 2014. Net cash generated from operating activities was primarily attributable to (i) operating cash inflow of RMB162.0 million and (ii) increase in provision of RMB10.1 million as our contractual obligations to maintain and restore our facilities increased alongside the increase in our facilities, partially offset by (iii) increase in trade and other receivables and prepayments and amounts due from customers for contract works of RMB10.8 million and (iv) income tax paid of RMB22.8 million.

We generated net cash of RMB137.7 million for the year ended 31 December 2013. Net cash generated from operating activities was primarily attributable to (i) operating cash inflow of RMB130.0 million (ii) decrease in trade and other receivables and prepayments of RMB19.3 million and (iii) increase in provision of RMB14.9 million as our contractual obligations to maintain and restore our facilities increased alongside the increase in our facilities, partially offset by, (iv) a decrease in trade and other payables, advance from customers of RMB23.1 million and (v) income tax paid of RMB12.4 million.

For further details of the descriptions of the financial position items above, please see "— Description of Selected Consolidated Statements of Financial Position Items".

**Net Cash Used in Investing Activities**

We used net cash of RMB246.8 million in investing activities for the ten months ended 31 October 2016. Net cash used in investing activities was primarily attributable to (i) purchases of property, plant and equipment, investment properties, prepaid lease payments and construction of infrastructure of RMB253.9 million in connection with our pipeline installation and plant construction, including Nanjiao Supply Plant II, Qiancao Supply Plant II, Chengdong Treatment Plant and Chengnan Treatment Plant, partially offset by (ii) proceeds from disposal of property, plant and equipment, investment properties and prepaid lease payments of RMB4.2 million, and (iii) receipt of government grants relating to purchase of property, plant and equipment and intangible assets of RMB1.6 million.

We used net cash of RMB430.4 million in investing activities for the year ended 31 December 2015. Net cash used in investing activities was primarily attributable to (i) purchases of property, plant and equipment, investment properties, prepaid lease payments and intangible assets of RMB433.4 million in connection with our pipeline installation and plant construction, including (a) the construction of Phase III of Beijiao Supply Plant and Nanjiao Supply Plant II; (b) the construction of Phase II of Naxi Treatment Plant and (c) the construction of Chengdong Treatment Plant and Chengnan Treatment Plant; (ii) payment for acquisition of additional available-for-sale investment of RMB15.8 million such as equity interest in Xiangjiaba Irrigation Construction and Development ("**Xiangjiaba**"), which was partially offset by (iii) receipt of government grants relating to purchase of property, plant and equipment and intangible assets of RMB13.5 million.

We used net cash of RMB352.8 million in investing activities for the year ended 31 December 2014. Net cash used in investing activities was primarily attributable to (i) purchases of property, plant and equipment, investment properties, prepaid lease payments and intangible assets of RMB344.4 million in connection with our pipeline installation and plant construction, including (a) the construction of Nanjiao Supply Plant II; (b) the construction of Phase II of Erdaoxi Treatment Plant and Phase II of Naxi Treatment Plant and (c) the construction of Chengdong Treatment Plant and Chengnan Treatment Plant; (ii) payment for acquisition of additional available-for-sale investment of RMB26.3 million such as equity interest in Xiangjiaba, which was partially offset by (iii) receipt of government grants relating to purchase of property, plant and equipment and intangible assets of RMB14.2 million.

We used net cash of RMB110.2 million in investing activities for the year ended 31 December 2013. Net cash used in investing activities was primarily attributable to (i) purchases of property, plant and equipment, investment properties, prepaid lease payments and intangible assets of RMB126.3 million in connection with our pipeline installation; (ii) payment for acquisition of additional available-for-sale investment of RMB10.5 million in connection with our acquisition of certain financial assets such as equity interest in Xiangjiaba, which was partially offset by (iii) receipt of government grants relating to purchase of property, plant and equipment and intangible assets of RMB21.3 million.

**Net Cash (Used in)/Generated from Financing Activities**

We generated net cash of RMB207.9 million in financing activities for the ten months ended 31 October 2016. Net cash generated from financing activities was primarily attributable to (i) proceeds from new borrowings of RMB334.0 million and (ii) capital contribution by shareholders of RMB133.6 million, partially offset by (iii) repayment of borrowings of RMB229.6 million and (iv) payments of interest expense of RMB23.2 million.

We generated net cash of RMB352.1 million from financing activities for the year ended 31 December 2015. Net cash generated from financing activities was primarily attributable to (i) RMB298.0 million additional paid-in capital from our Controlling Shareholder and (ii) proceeds from new borrowings of RMB504.5 million, partially offset by (iii) repayment of borrowing of RMB402.8 million and (iv) payments of interest expense of RMB24.6 million.

We generated net cash of RMB281.8 million from financing activities for the year ended 31 December 2014. Net cash generated from financing activities was primarily attributable to (i) RMB210.0 million additional paid-in capital from our Controlling Shareholder and (ii) proceeds from new borrowings of RMB479.4 million, partially offset by (iii) repayment of borrowings of RMB204.8 million (iv) dividend paid to our shareholders of RMB170.4 million, (v) dividends paid to minority shareholders of subsidiaries of RMB12.1 million and (vi) payment of interest expenses of RMB20.2 million.

We used net cash of RMB60.9 million in financing activities for the year ended 31 December 2013. Net cash used in financing activities was primarily attributable to (i) repayment of borrowing of RMB534.1 million and partially offset by (ii) proceeds from new borrowings of RMB483.4 million.

For further details of the descriptions of the financial position items above, please see "— Description of Selected Consolidated Statements of Financial Position Items".

## INDEBTEDNESS

The table below sets forth our indebtedness as of the indicated dates:

| | As of 31 December | | | As of 31 October |
|---|---|---|---|---|
| | 2013 | 2014 | 2015 | 2016 |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| Unsecured bank borrowings without corporate guarantee(i) | – | – | 130,000 | 220,000 |
| Unsecured bank borrowings with corporate guarantee(ii) | – | – | 100,000 | 170,000 |
| Unsecured other borrowing with corporate guarantee | – | – | – | 66,000 |
| Secured bank borrowings(iii) | – | – | 134,000 | 134,000 |
| Unsecured other borrowing | 9,164 | 7,914 | 6,920 | 5,283 |
| Unsecured borrowings from the immediate holding company of the Company | 69,900 | 349,400 | 120,000 | – |
| Unsecured borrowing from a shareholder | 35,600 | 32,000 | – | – |
| **Total** | 114,664 | 389,314 | 490,920 | 595,283 |

*Notes:*

(i) As of 31 December 2015, included in the unsecured bank borrowings is a bank borrowing of RMB20,000,000 bearing interest at fixed rate of 4.83% per annum, the remaining unsecured bank borrowings bear interest at floating rates ranging from 4.57% to 5.36% per annum. These unsecured bank borrowings are repayable from May 2016 to December 2016.

As of 31 October 2016, the unsecured bank borrowings bear interest at a floating rate at 4.57% per annum. These bank borrowings are repayable from December 2016 to August 2017.

(ii) (a) As of 31 December 2015, the unsecured bank borrowing bears interest at floating rate of 5.64% per annum and its repayment is jointly guaranteed by the Company and its immediate holding company at nil consideration. The unsecured bank borrowing is repayable by installments from June 2017 to December 2021.

(b) As of 31 October 2016, included in the unsecured bank borrowings are bank borrowings of RMB30,000,000 and RMB40,000,000 bearing interest at fixed rate of 4.57% per annum and at floating rate of 4.57% per annum, respectively, repayable before 30 June 2017 and their repayment are guaranteed by the Company at nil consideration, the remaining unsecured bank borrowings represent a bank borrowing with details set out in note (ii)(a) above.

(iii) The bank borrowings are secured by the Group's charging right for certain wastewater treatment fees and bear interest at floating rate of 4.90% per annum. The repayment of these bank borrowings are guaranteed by the Company's immediate holding company at nil consideration. These secured bank borrowings are repayable by installments from December 2017 to December 2030.

In July 2016, we obtained an unsecured loan of RMB66 million from China Agriculture Development Key Construction Fund Co., Ltd, which bears a fixed annual interest of 1.2% and has a term of 15 years. As provided in the loan agreement, the loan is to be used to finance the construction of a tap water supply plant in Jiangyang District to supply tap water to end users in Jiangyang District, and towards that end, the loan is guaranteed by an independent third party, Luzhou Xing Yang Investment Group Limited, which is an SOE and an investment platform of Jiangyang District government.

In November 2016, we obtained an unsecured bank borrowing of RMB50.0 million which bears interest at floating rate of 4.35% per annum and has a term of one year. The borrowing is used to replace other bank loans to finance our working capital. In December 2016, we obtained a banking facility of RMB30.0 million and had drawn down an unsecured bank borrowing of RMB10.0 million from the facility, which bears a fixed annual interest rate of 4.35% and has a term of one year. The borrowing is used to finance our working capital. In December 2016, we obtained another banking facility of RMB180.0 million and had drawn down an unsecured bank borrowing of RMB90.0 million from the facility, which bears interest at floating rate of 5.15% per annum and is repayable by instalments till 2024. The borrowing is used for construction of Qiancao Supply Plant II. The loan is guaranteed by Xinglu Wastewater Treatment, one of the subsidiaries of our Company.

One of our unsecured bank borrowings with corporate guarantee outstanding as of 31 October 2016 was guaranteed by Xinglu Investment at nil consideration, which the Directors expect to be released upon Listing.

Secured bank borrowings outstanding as of 31 October 2016 are guaranteed by the Company's immediate holding company at nil consideration, which the Directors expect to be released upon Listing.

Unsecured borrowings from the immediate holding company of the Company were borrowings we took from Xinglu Investment. Historically, we took certain borrowings that bore various interest rates from Xinglu Investment as part of Xinglu Investment's overall fund management on the group level. In addition, during the Track Record Period, we used part of our self-generated capital to fund the plant construction and expansion projects, which in turn, made it necessary to use borrowings as a supplemental source for working capital. In particular, outstanding amount of borrowings from Xinglu Investment increased significantly from RMB69.9 million as of 31 December 2013 to RMB349.4 million as of 31 December 2014. Starting in 2015, we took steps to reduce such loans from Xinglu Investment by replacing such loans with loans from commercial banks. As a result, outstanding amount of borrowings from Xinglu Investment decreased from RMB349.4 million as of 31 December 2014 to RMB120.0 million as of 31 December 2015. Up to 31 October 2016, we fully repaid the loans from Xinglu Investment.

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. The Directors further confirmed that there was no material change in our indebtedness from 31 January 2017 to the Latest Practicable Date.

As of 31 January 2017, we had total credit facilities of approximately RMB1,206.3 million from our lending banks, of which RMB685.3 million was utilised and RMB521.0 million was unutilised.

**Statement of Indebtedness**

As of 31 January 2017, the date being the latest practicable date for the purpose of the statement of indebtedness, we had total outstanding indebtedness of RMB685.3 million, details of which are set forth in the table below:

| | **As of 31 January 2017** |
|---|---|
| | **RMB'000** |
| Unsecured bank borrowings without corporate guarantee | 220,000 |
| Unsecured bank borrowings with corporate guarantee(i) | 260,000 |
| Unsecured other borrowing with corporate guarantee(ii) | 66,000 |
| Secured bank borrowings with corporate guarantee(iii) | 134,000 |
| Unsecured other borrowing without corporate guarantee | 5,283 |
| | 685,283 |

*Notes:*

(i) Included in these unsecured bank borrowings is a bank borrowing of RMB100 million and its repayment is guaranteed by the Company and its immediate holding company. The repayment of the remaining unsecured bank borrowings were guaranteed by certain companies of our Group.

(ii) The repayment of the other borrowing was guaranteed by Luzhou Xing Yang Investment Group Limited.

(iii) These bank borrowings were secured by the Group's charging right for certain wastewater treatment fees and their repayment were guaranteed by the Company's immediate holding company.

Except as disclosed above, as of 31 January 2017, we did not have outstanding mortgages, charges, debentures, loan capital, bank overdrafts, loans, loans from government, debt securities or other similar indebtedness, finance lease on hire purchase commitments, liabilities under acceptance credits or any guarantees on other material contingent liabilities outstanding.

## CONTINGENT LIABILITIES

From 31 January 2017 to the Latest Practicable Date, our Group did not have any material contingent liabilities that will have a material adverse effect on our financial position, liquidity or results of operation.

## CAPITAL EXPENDITURE

### Historical Capital Expenditures

For the year ended 31 December 2013, 2014 and 2015 and for the ten months ended 31 October 2016, we paid RMB126.3 million, RMB344.4 million, RMB433.4 million and RMB253.9 million, respectively for purchasing of property, plant and equipment, investment properties, prepaid lease payments and construction and upgrade services of infrastructure. Our capital expenditure consisted primarily of construction, expansion and/or renovation of our water supply plants and wastewater treatment plants and related facilities.

During the Track Record Period, we funded our capital expenditure primarily through internally generated resources, and capital contribution from our shareholders. As we used part of our self-generated capital to fund the plant construction and expansion projects, we then used borrowings as a supplemental source for working capital.

### Planned Capital Expenditures

As part of our future growth strategy, we plan to enhance our service portfolio and expand our processing capacities to solidify our leading position as a tap water supply and wastewater treatment services provider in Luzhou Area. We plan to upgrade our existing production facilities and construct new plants, and acquire new plants and equipment when opportunities present.

| | Two months ended 31 December 2016 and year ending 31 December 2017 | Year ending 31 December 2018 |
|---|---|---|
| | RMB'000 | RMB'000 |
| On-going construction and upgrading infrastructure. . | 235,528.1 | 362,839.9 |

We estimate that our planned capital expenditures for on-going construction and upgrading infrastructure including the projects that are currently at the planning stage for the two months ended 31 December 2016 and year ending 31 December 2017 will be approximately RMB235.5 million and for the year ending 31 December 2018 will be approximately RMB362.8 million, mainly for (i) upgrade our existing production facilities and construction of new plants, and (ii) the purchase of new equipment . We anticipate that our planned capital expenditures will be financed by cashflows from operating activities, external bank loans and proceeds from the Global Offering.

Our current plan with respect to planned capital expenditures is subject to change based on the evolution of our business plan, including potential acquisitions, the progress of our capital projects, market conditions and our outlook of future business conditions. As we continue to expand, we may incur additional capital expenditures. Our ability to obtain additional funding in the future is subject to a variety of uncertainties, including our future results of operations, economic, political and other conditions in the PRC, and relevant rules and regulations in the PRC and Hong Kong regarding debt and equity financing. Other than as required by law, we do not undertake any obligation to publish updates of our capital expenditure plans. Please refer to the section headed "Forward-looking Statements" in this prospectus.

## CONTRACTUAL AND CAPITAL COMMITMENTS

### Capital Commitments

We have construction and upgrading infrastructure. The table below sets forth the total amount of our capital commitments as of the dates indicated.

| | As of 31 December | | | As of 31 October |
|---|---|---|---|---|
| | 2013 | 2014 | 2015 | 2016 |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| Contracted but not yet incurred | 56,560 | 230,455 | 318,451 | 154,776 |

Of the RMB154.8 million capital commitment as of 31 October 2016, RMB100.6 million, or 65.0% was related to our pre-operational projects for tap water supply. The remaining RMB54.2 million, or 35.0% was related to our operational projects for tap water supply and wastewater treatment plants. We plan to fund our capital commitment from a combination of cash generated from operations, bank loans and our proceeds from the Global Offering. For more details, please refer to "Our Business — Project and Operation Management — Construction of Plants and Pipelines — Construction of plants".

### Operating Lease Commitments

***As lessee***

At the end of each of the Track Record Period, we had commitments for future minimum lease payments under a non-cancellable operating lease in respect of properties which fall due as follows:

| | At 31 December | | | As of 31 October |
|---|---|---|---|---|
| | 2013 | 2014 | 2015 | 2016 |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| Within one year | – | 44 | 16 | 2 |

***As lessor***

Property rental income earned by us was RMB2.3 million, RMB1.5 million, RMB0.9 million and RMB0.8 million, for each of the three years ended 31 December 2013, 2014 and 2015 and for the ten months ended 31 October 2016, respectively.

All of our investment properties are held for rental purposes. They are expected to generate rental on an on-going basis. All of the properties held have committed tenants for the next one to five years.

At the end of the Track Record Period, we had contracted with tenants for the following future minimum lease payments:

| | At 31 December | | | As of 31 October |
|---|---|---|---|---|
| | 2013 | 2014 | 2015 | 2016 |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| Within one year | 1,745 | 1,007 | 1,078 | 328 |
| In the second to fifth year, inclusive | 1,149 | 126 | 12 | 353 |
| | 2,894 | 1,133 | 1,090 | 681 |

## KEY FINANCIAL RATIOS

The following table sets forth the major financial ratios as of the dates or of the indicated periods:

| | As of and for the year ended 31 December | | | As of and for the ten months ended 31 October |
|---|---|---|---|---|
| | 2013 | 2014 | 2015 | 2016 |
| Current ratio(1) | 0.6 | 0.5 | 0.8 | 0.9 |
| Return on average equity(2) | 18.2% | 20.4% | 16.5% | N/A(6) |
| Profit after tax margin(3) | 21.5% | 18.4% | 15.8% | 16.7% |
| Gearing ratio(4) | 3.6% | 25.0% | 15.5% | 14.5% |
| Net debt to equity ratio(5) | 3.7% | 33.4% | 18.4% | 17.0% |

*Notes:*

(1) Current ratio equals current assets divided by current liabilities as at the end of the period.

(2) Return on average equity equals profit after tax for the period divided by the average balance of total equity at the beginning and end of the period and multiplied by 100%.

(3) Profit after tax margin equals profit after tax for the year divided by our total revenue for the same period multiplied by 100%.

(4) Gearing ratio equals net debt divided by total capital at the end of the period multiplied by 100%. Debt for a particular period includes bank borrowings and other borrowings of the relevant period. Net debt for a particular period equals debt minus cash and cash equivalents for the relevant period. Total capital is calculated as total equity plus net debt.

(5) Net debt to equity ratio equals net debt divided by total equity as at the end of the period multiplied by 100%.

(6) We did not annualise the return on average equity for the ten months ended 31 October 2016 for the purpose of comparison as we believe it is not meaningful to compare the annualised ratio with the ratio for the year ended 31 December 2015.

### Current Ratio

Our current ratio decreased slightly from 0.6 to 0.5 as of 31 December 2013 and 31 December 2014, respectively, primarily because of our increase in short-term borrowings. Our current ratio increased from 0.5 as of 31 December 2014 to 0.8 as of 31 December 2015 and further increased to 0.9 as of 31 October 2016 primarily because of increase in bank balances which is the result of additional paid-in capital from the Controlling Shareholder.

**Return on Average Equity**

Our return on equity increased from 18.2% for the year ended 31 December 2013 to 20.4% for the year ended 31 December 2014, primarily because the increase in our profit after tax for the period outpaced the growth of our average total equity, which in turn, was a result of us (i) declaration of a dividend of RMB83.3 million and (ii) the spin-off of assets of non-principal business to Luzhou Xinglu Asset Management Co., Ltd.* (瀘州市興瀘資產有限公司) as approved by Luzhou SASAC.

Our return on equity decreased from 20.4% for the year ended 31 December 2014 to 16.5% for the year ended 31 December 2015, primarily due to the increase in our total equity outpacing the growth of our profit for the period. The increase in total equity was due to additional paid-in capital from our Controlling Shareholder.

**Profit after Tax Margin**

Our profit after tax margin was 21.5%, 18.4%, 15.8% and 16.7% for the year ended 31 December 2013, 2014 and 2015 and for the ten months ended 31 October 2016, respectively. Our profit after tax margin decreased during most part of the Track Record Period primarily due to a decrease in gross profit margin. For detailed analysis of our profit after tax margins, please refer to "— Description of Selected Line Items in Consolidated Statements of Profit or Loss and Other Comprehensive Income — Profit After Tax and Profit After Tax Margin".

**Gearing Ratio**

Our gearing ratio increased from 3.6% as of 31 December 2013 to 25.0% as of 31 December 2014, primarily due to the increase in our short-term borrowings.

Our gearing ratio decreased from 25.0% as of 31 December 2014 to 15.5% as of 31 December 2015 and further decreased to 14.5% as of 31 October 2016, primarily due to the increase in total equity for the period due to additional paid-in capital from our Controlling Shareholder.

**Net Debt to Equity Ratio**

Our net debt to equity ratio and intangible assets increased from 3.7% as of 31 December 2013 to 33.4% as of 31 December 2014, primarily due to the increase in our short-term borrowings as of 31 December 2014.

Our net debt to equity ratio decreased from 33.4% as of 31 December 2014 to 18.4% as of 31 December 2015 and further decreased to 17.0% as of 31 October 2016, primarily due to the increase in total equity due to additional paid-in capital from our Controlling Shareholder.

## RELATED PARTY TRANSACTIONS

Our related party transactions consisted primarily of loans we took from Xinglu Investment. For more details, please refer to the subsection headed "— Indebtedness". In addition, we had property management fees payables to a subsidiary of Xinglu Investment in the amount of RMB1.3 million, RMB1.9 million, RMB2.8 million and RMB2.5 million, for the year ended 31 December 2013, 2014 and 2015 and for the ten months ended 31 October 2016, respectively, in connection with clearing and maintenance services provided to us.

We entered into the following transactions with our Controlling Shareholder, Xinglu Investment, fellow subsidiaries and other related parties during the Track Record Period:

| | | Year ended 31 December | | | Ten months ended 31 October | |
|---|---|---|---|---|---|---|
| | Related parties | 2013 | 2014 | 2015 | 2015 | 2016 |
| | | RMB'000 | RMB'000 | RMB'000 | RMB'000 (unaudited) | RMB'000 |
| *Continuing transactions* | | | | | | |
| Tap water supply | Shareholders and subsidiaries of Xinglu Investment | 687 | 1,416 | 1,025 | 830 | 1,643 |
| Installation and maintenance service income received | Shareholders and subsidiaries of Xinglu Investment | 417 | 257 | 10,622 | 5,489 | 13,902 |
| Property management fees | A subsidiary of Xinglu Investment | (1,259) | (1,906) | (2,802) | (2,335) | (2,475) |
| *Discontinued transactions* | | | | | | |
| Interest expense | Xinglu Investment | (547) | (16,148) | (21,335) | (18,480) | (2,568) |
| | Shareholder | (2,364) | (2,304) | (1,374) | (1,374) | – |
| Sales of properties and investment properties | Subsidiaries of Xinglu Investment | – | – | – | – | 3,318 |
| Sale of prepaid lease payment | A subsidiary of Xinglu Investment | – | – | – | – | 724 |
| Purchase of properties | A subsidiary of Xinglu Investment | – | – | – | – | (525) |
| Purchase of materials | Subsidiaries of Xinglu Investment | – | (790) | – | – | – |
| Water quality testing income | A shareholder and its subsidiaries | – | – | – | – | 285 |

The Directors confirm that these transactions were conducted on normal commercial terms and were not less favorable to us than terms available to or from Independent Third Parties.

## LISTING EXPENSES

The total estimated listing expenses including underwriting commission in relation to the Global Offering (assuming an offer price of HK$2.415 per H Share, which is the mid-point of the stated range of the Offer Price between HK$2.3 and HK$2.53 per H Share) is expected to be approximately RMB48.7 million. During the Track Record Period, we incurred listing expenses in relation to the Global Offering of RMB19.4 million, of which RMB1.6 million was charged to our consolidated statements of profit or loss or other comprehensive income and RMB17.8 million was recognised as deferred listing expenses as included in prepayments and other receivables. We expect to incur further listing expenses in relation to the Global Offering of approximately RMB29.3 million prior to the completion of the Global Offering, of which approximately RMB5.0 million will be recognised in our consolidated statements of profit or loss or other comprehensive income and approximately RMB24.3 million will be deducted from equity upon 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 2017.

## OFF-BALANCE SHEET ARRANGEMENTS

As of 31 October 2016, we had not entered into any off-balance sheet arrangement except as disclosed in this prospectus.

## DISTRIBUTABLE RESERVES

As of 31 October 2016, we had distributable reserves of approximately RMB98.5 million which is available for distribution to our equity holders.

## QUANTITATIVE DISCLOSURE OF FINANCIAL RISK

Exposure to credit, liquidity and currency risks arises in the normal course of our Group's business. Our Group's principal financial instruments mainly include cash and cash equivalents, pledged deposits, trade and bills receivables, and trade and bills payables, which arise directly from its operations. We have other financial assets and liabilities such as interest-bearing bank borrowings, amounts due from/to subsidiaries/associates, amounts due to customers for contract work, and deposits and other receivables, and other payables and accruals. The main purpose of these financial instruments is to raise finance for the Group's operations.

The main risks arising from our financial instruments are interest rate risk, foreign currency risk, credit risk and liquidity risk. We do not hold or issue derivative financial instruments either for hedging or for trading purposes.

**Interest Rate Risk**

Our fair value interest rate risk relates primarily to our fixed interest rate borrowings. We are also exposed to cash flow interest rate risk through the impact of rate changes on variable interest bearing financial assets (mainly bank balances which carried at prevailing market interest rates) and borrowings bearing at floating rates.

The sensitivity analysis below has been determined based on the exposure to interest rates for variable interest bearing bank balances and borrowings at the end of Track Record Period , respectively, and assumed that these amounts outstanding at the end of Track Record Period, respectively, was outstanding for the whole relevant period.

If interest rates on bank balances and borrowings had been ten basis points higher, and all other variables were held constant, the potential effect on our profit after tax would increase by RMB44,000, increase by RMB111,000, and decrease by RMB52,000 and decrease by RMB94,000 for the year ended 31 December 2013, 2014 and 2015 and for the ten months ended 31 October 2016, respectively.

There would be an equal and opposite impact on the above profit after tax, should interest rates on bank balances and borrowings had been ten basis point lower in the above sensitivity analysis.

**Foreign Currency Risk**

While we carries out our business in the PRC and receives revenue and pays its costs/expenses in RMB, we had a borrowing from the World Bank that is US$ denominated, the outstanding amount of which was equivalent to RMB9.2 million, RMB7.9 million, RMB6.9 million and RMB5.3 million, as of 31 December 2013, 2014 and 2015 and 31 October 2016. We do not currently hedge our exposure to foreign currencies and recognises the profits and losses resulting from currency fluctuations as and when they arise.

**Credit Risk**

Our maximum exposure to credit risk which will cause a financial loss to us due to failure to discharge an obligation by the counterparties is arising from the carrying amount of the respective recognised financial assets as stated in the consolidated statement of financial position.

The Group's credit risk is primarily attributable to its trade receivables and receivables under service concession arrangements. In order to minimise the credit risk, the Group's management continuously monitors the level of exposure to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual debt at the end of each reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the Directors consider that the Group's credit risk is significantly reduced.

The Group has concentration of credit risk because 71.2%, 54.2%, 62.7% and 80.6% of total trade receivables and receivables under service concession arrangements as of 31 December 2013, 2014 and 2015 and 31 October 2016, respectively, were mainly due from the governmental customers as they are the grantors to our concession arrangements in accordance with IFRIC 12.

### Liquidity Risk

We had net current liabilities of RMB165.8 million, RMB292.0 million, RMB115.3 million and RMB83.4 million as of 31 December 2013, 2014 and 2015 and 31 October 2016, respectively. In the management of liquidity risk, our management prepares forecast for future cash requirements that takes into account of the operating cash flows, the liquidity risk tables below and future capital commitments aiming at keeping our operation with sufficient cash to meet the liabilities due at any time. Based on such forecast, should we require additional cash to fund its operation/expansion projects, our management decide to obtain additional banking borrowings or additional capital. As of 31 October 2016, the Group had unutilised banking facilities amounting to RMB411 million which is repayable by installments upon drawn down dates to December 2030.

## DIVIDEND

During the year ended 31 December 2013, 2014 and 2015 and for the ten months ended 31 October 2016, we declared dividend of approximately RMB92.1 million, RMB83.3 million, RMB12.2 million and nil, respectively.

Our Directors are responsible for submitting proposals in respect of dividend payments, if any, to the Shareholders' General Meeting for approval. Whether we pay a dividend and in what amount is based on our results of operations, cash flows, financial condition, cash dividends we receive from our subsidiaries, future business prospects, statutory and regulatory restrictions on the payment of dividends by us and other factors that our Directors deem relevant. Our dividend payment in the past does not indicate of our dividend policy in the future. Our Board has an absolute discretion to recommend any dividend for any year and we currently do not have a definitive dividend policy. There is no assurance that dividends of any amount will be declared or distributed in any year.

## DISCLOSURE REQUIRED UNDER CHAPTER 13 OF THE LISTING RULES

The Directors confirm that as of the Latest Practicable Date, there were no circumstances which would give rise to a disclosure required under Rules 13.13 to 13.19 of the Listing Rules upon the listing of the Shares on the Stock Exchange.

## RECENT DEVELOPMENTS AND NO MATERIAL ADVERSE CHANGES

Our Directors confirm that, since 31 October 2016 and up to the date of this prospectus, there has been no material adverse change in our financial position or prospects, revenue or gross profit margin and no event has occurred that would materially affect the information shown in the Accountants' Report set out in Appendix I to this prospectus.

## FUTURE PLANS

For a detailed description of our future plans, please refer to the section headed " Our Business — Our Strategies" in this prospectus.

## USE OF PROCEEDS

Assuming an offer price of HK$2.415 per H share, being the mid-point of the indicative Offer Price range stated in this prospectus, we estimate that we will receive net proceeds of approximately HK$416.6 million from the Global Offering after deducting the underwriting fees and commissions and estimated expenses payable by us in relation to the Global Offering, and assuming no exercise of the Over-allotment Option. We will not receive any of the proceeds from the sale of the Sale Shares by the Selling Shareholders in the Global Offering.

Our Directors intend to apply the net proceeds from the Global Offering for the following purposes:

- approximately 30%, or HK$125.0 million, will be used for constructing new tap water supply and wastewater treatment facilities such as the upgrade project of Yaerdang Treatment Plant Upgrade and construction of Huangxi Supply Plant with a designed supply capacity of 95,000 tons per day, in order to increase our market share in Sichuan Province, or other municipal water service related facilities in order to expand our business operation into new markets, such as water environment protection and sludge disposal;

- approximately 30%, or HK$125.0 million, will be used to finance the acquisition of tap water supply or wastewater treatment facilities to be identified by us, which will increase our production capacity;

- approximately 30%, or HK$125.0 million, will be used for repayment of portion of our current bank borrowings as follows:

| Lender | Outstanding principal amount as of 31 October 2016 | Interest Rate[1] | Maturity Date | Use of Borrowings |
|---|---|---|---|---|
| Luzhou Longmatan Rural Commercial Bank 瀘州龍馬潭農村商業銀行股份有限公司 | RMB20 million | 4.57% | 9 August 2017 | Funding working capital |
| Luzhou Branch of Industrial Bank Co. Ltd 興業銀行股份有限公司瀘州分行 | RMB50 million | 4.35% | 29 November 2017 | Funding working capital |
| Luzhou Branch of China Merchants Bank Co. Ltd 招商銀行股份有限公司瀘州分行 | RMB10 million | 4.35% | 1 December 2017 | Funding working capital |
| Luzhou Branch of Bank of China Co., Ltd.* 中國銀行股份有限公司瀘州分行 | RMB50 million | LPR+0.2675% | 18 May 2017 | Funding working capital |

*Note:*

(1) LPR (Loan Premier Rate) refers to the benchmark rates for inter-bank loans in the PRC as published by the Inter-bank Loan Center.

- approximately 10%, or HK$41.6 million, will be used to fund our working capital and general corporate purposes.

If the Offer Price is fixed at HK$2.53 per H Share, being the high-end of the indicative Offer Price range, the net proceeds will increase by approximately HK$21.5 million. If the Offer Price is fixed at HK$2.30 per H Share, being the low-end of the indicative Offer Price range, the net proceeds will decrease by approximately HK$21.5 million. To the extent our net proceeds are either more or less than expected, we will adjust our allocation of the net proceeds for the above purposes accordingly.

If the Over-allotment Option is exercised in full and the Offer Price is fixed at the mid-point of the indicative Offer Price range being HK$2.415 per H Share, we estimate that the additional net proceeds, after deducting the underwriting fees and commissions and estimated expenses payable by us in relation to the Global Offering, will be approximately HK$68.0 million. Any additional proceeds received by us from the exercise of the Over-allotment Option will be allocated to the above purposes on a pro rata basis.

If any part of our plan does not proceed as planned for reasons such as changes in government policies that would render any of our plans not viable, or the occurrence of force majeure events, our Directors will carefully evaluate the situation and may reallocate the net proceeds from the Global Offering.

To the extent that the net proceeds of the Global Offering are not immediately used for the above purposes and to the extent permitted by the relevant laws and regulations, they will be placed in short term demand deposits with banks in Hong Kong or the PRC and/or through money market instruments.

We will issue an appropriate announcement if there is any material change to the above proposed use of proceeds.

We estimate that the net proceeds from the sales of Sale Shares by the Selling Shareholders pursuant to the Global Offering (after deduction of estimated expenses payable by the Selling Shareholders in relation to the Global Offering), will be:

- approximately HK$44.9 million, if the Over-allotment Option is not exercised, or approximately HK$51.7 million, if the Over-allotment Option is exercised in full, assuming an Offer Price of HK$2.30, being the low-end of the proposed Offer Price range;

- approximately HK$47.2 million, if the Over-allotment Option is not exercised, or approximately HK$54.3 million, if the Over-allotment Option is exercised in full, assuming an Offer Price of HK$2.415, being the mid-point of the proposed Offer Price range; and

- approximately HK$49.4 million, if the Over-allotment Option is not exercised, or approximately HK$56.9 million, if the Over-allotment Option is exercised in full, assuming an Offer Price of HK$2.53, being the high-end of the proposed Offer Price range.

We would not receive any proceed from the sales of Sale Shares by the Selling Shareholders.

## THE CORNERSTONE PLACING

We have entered into cornerstone investment agreements with two cornerstone investors (the "**Cornerstone Investors**", and each a "**Cornerstone Investor**"), who have agreed to subscribe, or cause their designated entities to subscribe, for our Offer Shares (the "**Cornerstone Placing**") at the Offer Price.

Assuming an Offer Price of HK$2.30, being the low-end of the proposed Offer Price range set out in this prospectus, the total number of subscribed Offer Shares will be 90,480,000 and the subscription will amount to approximately HK$208.10 million (exclusive of brokerage, SFC transaction levy and the Stock Exchange trading fee). Assuming an Offer Price of HK$2.415, being the mid-point of the proposed Offer Price range set out in this prospectus, the total number of subscribed Offer Shares will be 89,559,000 and the subscription will amount to approximately HK$216.28 million (exclusive of brokerage, SFC transaction levy and the Stock Exchange trading fee). Assuming an Offer Price of HK$2.53, being the high-end of the proposed Offer Price range set out in this prospectus, the total number of subscribed Offer Shares will be 88,723,000 and the subscription will amount to approximately HK$224.47 million (exclusive of brokerage, SFC transaction levy and the Stock Exchange trading fee).

The Cornerstone Placing will form part of the International Offering. The Offer Shares to be subscribed for by the Cornerstone Investor will rank pari passu in all respects with the other fully paid H Shares in issue upon completion of the Global Offering and will be counted towards the public float of our Company. The Cornerstone Investor will not subscribe for any Offer Shares under the Global Offering (other than as pursuant to the cornerstone investment agreement). Upon the completion of the Global Offering, the Cornerstone Investor will not have any board representation in our Company and it will not become our substantial shareholder (as defined under the Listing Rules). The Cornerstone Investor does not have any preferential rights compared with other public shareholders pursuant to the cornerstone investment agreement. The Offer Shares to be subscribed for by the Cornerstone Investor 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".

To the best knowledge of our Company, the Cornerstone Investor is an independent third party, independent of our connected persons and their respective associates.

Details of the actual number of the Offer Shares to be allocated to the Cornerstone Investor will be disclosed in the allotment results announcement to be published on or around 30 March 2017.

## CORNERSTONE INVESTORS

We set out below a brief description of each of our Cornerstone Investors:

### BEWG

We and the Sole Global Coordinator have entered into a cornerstone investment agreement with, Beijing Enterprises Water Group Limited ("**BEWG**"), pursuant to which BEWG agreed to subscribe for 71,150,000 H Shares in the International Offering at the Offer Price, which would represent approximately (i) 33.10% of the total number of the Offer Shares and 8.28% of the total shares in issue immediately following the completion of the Global Offering, assuming that the Over-allotment Option is not exercised, and (ii) 28.78% of the total number of the Offer Shares and 8.00% of the total shares in issue immediately following the completion of the Global Offering, assuming that the Over-allotment Option is exercised in full. The number of H Shares to be subscribed by BEWG should not exceed 10% of the total shares in issue immediately following the completion of the Global Offering. Assuming an Offer Price of HK$2.30, being the low-end of the proposed Offer Price range set out in this prospectus, the subscription by BEWG will amount to approximately HK$163.65 million (exclusive of brokerage, SFC transaction levy and the Stock Exchange trading fee). Assuming an Offer Price of HK$2.415, being the mid-point of the proposed Offer Price range set out in this prospectus, the subscription by BEWG will amount to approximately HK$171.83 million (exclusive of brokerage, SFC transaction levy and the Stock Exchange trading fee). Assuming an Offer Price of HK$2.53, being the high-end of the proposed Offer Price range set out in this prospectus, the subscription by BEWG will amount to approximately HK$180.00 million (exclusive of brokerage, SFC transaction levy and the Stock Exchange trading fee).

BEWG is a company incorporated in Bermuda and whose shares are listed on the Stock Exchange (stock code: 0371). Beijing Enterprises Holdings Limited ("**Beijing Holdings**"), a diversified utility conglomerate whose shares are listed on the Stock Exchange (stock code: 0392) and owned by the State-owned Assets Supervision and Administration Commission of the Beijing Municipal Government, is the controlling shareholder of BEWG as it owns approximately 43.93% interest in the total issued share capital of BEWG. BEWG and its subsidiaries are principally engaged in operations in water treatment business, construction and technical services for the water environmental renovation.

### Sans Venture Capital

We and the Sole Global Coordinator have entered into a cornerstone investment agreement with, Sichuan Sans Venture Capital Co., Ltd (四川三新創業投資有限責任公司, "**Sans Venture Capital**"), pursuant to which Sans Venture Capital agreed to subscribe for, through a qualified domestic institutional investor as asset manager, 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$5.7 million (the HK$ equivalent to which is to be calculated based on the closing rate as quoted by The Hong Kong and Shanghai Banking Corporation Limited on the Price Determination Date) at the Offer Price. Assuming that the applicable exchange rate is US$1.00 to HK$7.8 and the Over-allotment Option is not exercised, at the Offer Price of HK$2.30, being the low-end of the Offer Price range set out in this prospectus, the total number of H

Shares that Sans Venture Capital subscribe for would be 19,330,000, representing approximately 8.99% of the total number of the Offer Shares and 2.25% of the total shares in issue immediately following completion of the Global Offering; at the Offer Price of HK$2.415, being the mid-point of the Offer Price range set out in this prospectus, the total number of H Shares that Sans Venture Capital would subscribe for would be 18,409,000, representing approximately 8.56% of the total number of the Offer Shares and 2.14% of the total shares in issue immediately following completion of the Global Offering; and at the Offer Price of HK$2.53, being the high-end of the Offer Price range set out in this prospectus, the total number of H Shares that Sans Venture Capital would subscribe for would be 17,573,000, representing approximately 8.18% of the total number of the Offer Shares and 2.04% of the total shares in issue immediately following completion of the Global Offering. The number of H Shares to be subscribed by Sans Venture Capital should not exceed 10% of the total shares in issue immediately following the completion of the Global Offering.

Sans Venture Capital is a limited liability company established in the PRC on 3 August 2010 with a registration capital of RMB500 million. It was wholly owned by Sichuan Development Holding Co., Ltd (四川發展(控股)有限責任公司) which was wholly owned by the People's Government of Sichuan Province. Sans Venture Capital is mainly engaged in asset management, venture capital investment and consulting businesses.

**CONDITIONS PRECEDENT**

The subscription obligation of each of the Cornerstone Investors is subject to, among other things, the following conditions precedent:

(1) the Hong Kong Underwriting Agreement and the International Underwriting Agreement being entered into by, inter alia, our Company and the Sole Global Coordinator and having become unconditional and not having been terminated by no later than the time and date as specified in the Hong Kong Underwriting Agreement and the International Underwriting Agreement in accordance with their respective original terms, or as subsequently varied by agreement of the parties thereto or waived, to the extent it may be waived, by the relevant parties;

(2) 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 having not been revoked prior to the commencement of dealings in the H Shares on the Stock Exchange;

(3) the respective representations, warranties, undertakings and acknowledgements of the relevant Cornerstone Investor under the cornerstone investment agreement are and will be accurate and true in all material respects and not misleading in any material respect, and that there being no material breach of the relevant cornerstone investment agreements on the part of the Cornerstone Investor; and

(4) 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 herein and no orders or injunctions from a court of competent jurisdiction in effect precluding or prohibiting the consummation of such transactions.

**RESTRICTIONS ON THE CORNERSTONE INVESTORS' INVESTMENT**

Each of the Cornerstone Investors has agreed and has undertaken to our Company and the Sole Global Coordinator that, without the prior written consent of our Company and the Sole Global Coordinator, it shall not, whether directly or indirectly, at any time during the period of six months following the Listing Date, dispose of any shares purchased by it and any shares or other securities of our Company which are derived from such shares pursuant to any rights issue, capitalisation issue or other form of capital reorganisation (whether such transactions are to be settled in cash or otherwise) and any interest from such shares or securities, or agree or contract to, or publicly announce any intention to enter into a transaction with a third party for disposal of such shares, other than transfers to any wholly-owned subsidiary of such Cornerstone Investor, provided that, among other things, such wholly-owned subsidiary gives a written undertaking agreeing to, and such Cornerstone Investor gives a written underwriting agreeing to procure that such wholly-owned subsidiary shall be bound by such Cornerstone Investor's obligations under the cornerstone investment agreement.

## HONG KONG UNDERWRITERS

BOCOM International Securities Limited

First Capital Securities Limited

Haitong International Securities Company Limited

## UNDERWRITING ARRANGEMENTS AND EXPENSES

### Hong Kong Public Offering

#### *Hong Kong Underwriting Agreement*

We are offering the Hong Kong Public Offer Shares for subscription on the terms and subject to the conditions of this prospectus and the Application Forms at the Offer Price. Subject to the Listing Committee granting the listing of, and permission to deal in, our H Shares in issue and to be issued, and to certain other conditions described in the Hong Kong Underwriting Agreement (including the Sole Global Coordinator (for itself and on behalf of the Hong Kong Underwriters), and our Company (for ourselves and on behalf of the Selling Shareholders) agreeing to the Offer Price), the Hong Kong Underwriters have agreed severally to subscribe or procure subscribers for the Hong Kong Public Offer Shares which are being offered but are not taken up under the Hong Kong Public Offering on the terms and subject to the conditions of this prospectus, the Application Forms and the Hong Kong Underwriting Agreement.

The Hong Kong Underwriting Agreement is conditional upon and subject to, among other things, the International Underwriting Agreement having been signed and becoming unconditional in accordance with its terms and not having been terminated in accordance with its terms or otherwise.

#### *Grounds for termination*

The Sole Global Coordinator (for itself and on behalf of the Hong Kong Underwriters) and the Sole Sponsor shall be entitled by notice (orally or in writing) to our Company to terminate the Hong Kong Underwriting Agreement with immediate effect if, at any time at or prior to 8:00 a.m. on the Listing Date:

(a) there shall develop, occur, exist or come into effect:

(i) any local, national, regional or international event or circumstance in the nature of force majeure (including, without limitation, any acts of government, declaration of a national or international emergency or war, calamity, crisis, epidemic, pandemic, outbreak of infectious disease, economic sanctions, strikes, lock-outs, fire, explosion, flooding, earthquake, volcanic eruption, civil commotion, riots, public disorder, acts of war, outbreak or escalation of hostilities (whether or not war is declared), acts of God or acts of terrorism) in or affecting Hong Kong, the PRC, the United States, the United Kingdom, any member of the European Union, Japan, Singapore or any other jurisdiction relevant to our Company or the Global Offering (collectively, the "**Relevant Jurisdictions**"); or

(ii) any change, or any development involving a prospective change (whether or not permanent), or any event or circumstance likely to result in any change or development involving a prospective change, in any local, national, regional or international financial, economic, political, military, industrial, fiscal, regulatory, currency, credit or market conditions (including, without limitation, conditions in the stock and bond markets, money and foreign exchange markets, investment markets, the interbank markets and credit markets) in or affecting any of the Relevant Jurisdictions; or

(iii) any moratorium, suspension or restriction (including, without limitation, any imposition of or requirement for any minimum or maximum price limit or price range) in or on trading in securities generally on the Stock Exchange, the New York Stock Exchange, the NASDAQ Global Market, the London Stock Exchange, the Tokyo Stock Exchange, the Shanghai Stock Exchange or the Shenzhen Stock Exchange; or any general moratorium on commercial banking activities in Hong Kong (imposed by the Financial Secretary or the Hong Kong Monetary Authority or other competent Authority), New York (imposed at Federal or New York State level or other competent Authority), London, the PRC, the European Union or any member thereof, Japan or any Relevant Jurisdiction, or any disruption in commercial banking or foreign exchange trading or securities settlement or clearance services, procedures or matters in any of those places or jurisdictions; or

(iv) any new law, or any change or any development involving a prospective change or any event or circumstance likely to result in a change or a development involving a prospective change in (or in the interpretation or application by any court or other competent authority of) existing laws, in each case, in or affecting any of the Relevant Jurisdictions; or

(v) the imposition of economic sanctions, or the withdrawal of trading privileges, in whatever form, directly or indirectly, by, or for, any of the Relevant Jurisdictions (other than the PRC) on or from (as applicable) the PRC; or

(vi) a change or development involving a prospective change in or affecting taxation or exchange control, currency exchange rates or foreign investment regulations (including, without limitation, a material devaluation of the Hong Kong dollar or the Renminbi against any foreign currencies), or the implementation of any exchange control, in any of the Relevant Jurisdictions; or

(vii) any change or development involving a prospective change, or a materialisation of, any of the risks set out in the section headed "Risk Factors" in this prospectus; or

(viii) any litigation or claim of any third party being threatened or instigated against any member of our Group; or

(ix) a 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; or

(x) the chairman, chief executive officer or chief financial officer of our Company vacating his or her office; or

(xi) an authority or a political body or organisation in any Relevant Jurisdiction commencing any investigation or other action, or announcing an intention to investigate or take other action, against any Director; or

(xii) a contravention by any member of our Group of the Listing Rules or applicable laws; or

(xiii) a prohibition on our Company for whatever reason from allotting or selling the H Shares (including the H Shares to be allotted and issued by our Company pursuant to the Over-allotment Option) pursuant to the terms of the Global Offering; or

(xiv) non-compliance of this prospectus (or any other documents used in connection with the contemplated offer and sale of the H Shares) or any aspect of the Global Offering with the Listing Rules or any other applicable laws; or

(xv) the issue or requirement to issue by our Company of any supplement or amendment to this prospectus (or to any other documents used in connection with the contemplated offer and sale of the H Shares) pursuant to the Companies Ordinance, the Companies (Winding Up and Miscellaneous Provisions) Ordinance or the Listing Rules or any requirement or request of the Stock Exchange, CSRC and/or the SFC; or

(xvi) that a valid demand by any creditor for repayment or payment of any indebtedness of the Company or any other member of our Group or in respect of which our Company or any other member of our Group is liable prior to its stated maturity, which demand has or could reasonably be expected to have a material adverse effect on our Group taken as a whole; or

(xvii) an order or petition for the winding up of any member of our Group or any composition or arrangement made by any member of our Group with its creditors or a scheme of arrangement entered into by any member of our Group or any resolution for the winding-up of any member of our Group or the appointment of a provisional liquidator, receiver or manager over all or part of the assets or undertaking of any member of our Group or anything analogous thereto occurring in respect of any member of our Group,

which, individually or in the aggregate, in the sole opinion of the Sole Global Coordinator and the Sole Sponsor (1) has or will or may have a material adverse effect on the assets, liabilities, business, general affairs, management, prospects, shareholders' equity, profits, losses, results of operations, position or condition, financial or otherwise, or performance of our Group as a whole; or (2) has or will have or may have a material adverse effect on the success of the Global Offering or the level of applications under the Hong Kong Public Offering or the level of interest under the International Offering or dealings in the H Shares in the secondary market; or (3) makes or will make or may make it inadvisable or inexpedient or impracticable for the Global Offering to proceed or to market the Global Offering; or (4) has or will or may have the effect of making any part of the

Hong Kong Underwriting Agreement (including underwriting) incapable of performance in accordance with its terms or preventing or delaying the processing of applications and/or payments pursuant to the Global Offering or pursuant to the underwriting thereof; or

(b) there has come to the notice of the Sole Global Coordinator and the Sole Sponsor:

(i) that any statement contained in any of this prospectus and the Application Forms and/or in, any notices, announcements, advertisements, communications or other documents issued or used by or on behalf of our Company in connection with the Hong Kong Public Offering (including any supplement or amendment thereto) was, when it was issued, or has become, untrue or incorrect in any material respect or misleading in any respect, or that any forecast, estimate, expression of opinion, intention or expectation contained in any of this prospectus and the Application Forms, and/or any notices, announcements, advertisements, communications or other documents issued or used by or on behalf of our Company in connection with the Hong Kong Public Offering (including any supplement or amendment thereto) is not fair and honest and not based on reasonable assumptions; or

(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, constitute a material omission from any of this prospectus or the Application Forms and/or in any notices, announcements, advertisements, communications or other documents issued or used by or on behalf of our Company in connection with the Hong Kong Public Offering (including any supplement or amendment thereto); or

(iii) any breach of any of the obligations imposed upon any party to the Hong Kong Underwriting Agreement or the International Underwriting Agreement (other than upon any of the Sole Sponsor, the Hong Kong Underwriters or the International Underwriters); or

(iv) that a petition is presented for the winding-up or liquidation of our Company or any other member of our Group or our Company or any other member of the Group makes any composition or arrangement with its creditors or enters into a scheme of arrangement or any resolution is passed for the winding-up of our Company or any other member of our Group or a provisional liquidator, receiver or manager is appointed over all or part of the assets or undertaking of our Company or any other member of our Group or anything analogous thereto occurs in respect of our Company or any other member of our Group, which in the sole opinion of the Sole Global Coordinator and the Sole Sponsor, may or is likely to be material in the context of the Global Offering; or

(v) any event, act or omission which gives or is likely to give rise to any liability of any of the indemnifying parties pursuant to the Hong Kong Underwriting Agreement; or

(vi) 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, position or condition, financial or otherwise, or performance of our Company or any other member of our Group; or

(vii) any breach of, or any event rendering untrue or incorrect or misleading in any respect, any of the warranties of the Hong Kong Underwriting Agreement; or

(viii) approval by the Listing Committee of the listing of, and permission to deal in, the H Shares to be issued or sold (including any additional H Shares that may be issued or sold pursuant to the exercise of the Over-Allotment Option) under the Global Offering is refused or not granted (not including granting of such approval subject to customary conditions), other than subject to customary conditions, on or before the Listing Date, or if granted, the approval is subsequently withdrawn, qualified (other than by customary conditions) or withheld; or

(ix) our Company has withdrawn this prospectus (and/or any other documents issued or used in connection with the Global Offering) or the Global Offering; or

(x) that any person (other than the Sole Sponsor) has withdrawn or is likely to withdraw its consent to being named in any of this prospectus or the Application Forms or to the issue of any of this prospectus or the Application Forms.

**Undertakings to the Hong Kong Underwriters**

***Undertakings by our Company***

Pursuant to the Hong Kong Underwriting Agreement, except pursuant to the Global Offering and 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**"), our Company has undertaken to each of the Sole Sponsor, the Sole Global Coordinator and the Hong Kong Underwriters 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 (for itself and on behalf of the Hong Kong Underwriters) and unless in compliance with the requirements of the Listing Rules:

(i) 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 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 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 of such other member of our Group, as applicable or any interest in any of the foregoing), or deposit any Shares or other securities of our Company, as applicable, with a depositary in connection with the issue of depositary receipts; or

(ii) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of Shares or any other securities of our Company or any shares 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 securities of such other member of our Group, as applicable, or any interest in any of the foregoing); or

(iii) enter into any transaction with the same economic effect as any transaction specified in (i) or (ii) above; or

(iv) offer to or agree to or announce any intention to effect any transaction specified in (i), (ii) or (iii) above,

in each case, whether any of the transactions specified in (i), (ii) or (iii) above is to be settled by delivery of Shares or such other securities of our Company or shares or other securities of such other member of our Group, as applicable, or in cash or otherwise (whether or not the issue of Shares or such other securities will be completed within the aforesaid 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 (i), (ii) or (iii) 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 Shareholder***

The Controlling Shareholder has irrevocably and unconditionally undertaken to our Company, the Sole Sponsor, the Sole Global Coordinator, (for itself and on behalf of the Underwriters) that, without the prior written consent of the Sole Sponsor and Sole Global Coordinator (for itself and on behalf of the Underwriters) and unless in compliance with the requirements of the Listing Rules:

(i) it will not, at any time during the First Six-Month Period,

(a) 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 any 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, 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 Shares or any other securities of our Company or any interest therein in (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

(c) enter into any transaction with the same economic effect as any transaction specified in (a) or (b) above, or

(d) offer to or agree to or announce any intention to effect any transaction specified in (a), (b) or (c) above,

in each case, whether any of the transactions specified in (a), (b) or (c) above is to be settled by delivery of Shares or such other securities of our Company or shares or other securities of such other member of our Group, as applicable, or in cash or otherwise (whether or not the issue of Shares or such other securities will be completed within the aforesaid period);

(ii) it will not, during the Second Six-Month Period, enter into any of the transactions specified in (i)(a), (b) or (c) 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 will cease to be a controlling shareholder (as the term is defined in the Listing Rules) of our Company; and

(iii) until the expiry of the Second Six-Month period, in the event that it enters into any of the transactions specified in (i)(a), (b) or (c) above or offer to or agrees to or announce any intention to effect any such transaction, it will take all reasonable steps to ensure that it will not create a disorderly or false market in the securities of our Company.

**Undertakings to the Stock Exchange pursuant to the Listing Rules**

***Undertakings by our Company***

Pursuant to Rule 10.08 of the Listing Rules, at any time during the period of the six months from the Listing Date (whether or not such issue of Shares or securities will be completed within six months from the commencement of dealing), our Company will not, without the prior consent of the Stock Exchange and unless in compliance with the requirements of the Listing Rules, allot or issue or agree to allot or issue any Shares or other securities of our Company (including warrants or other convertible securities) or grant or agree to grant any options, rights, interests or encumbrances over any Shares or other securities of our Company or enter into any swap or other arrangement that transfers, in whole or in part, any of the economic consequence of ownership of any Shares or offer to or agree to do any foregoing or have any intention to do so, except pursuant to the Global Offering or issue of Shares under the Over-allotment Option or any issue of Shares or securities in compliance with Rule 10.08 of the Listing Rules.

***Undertakings by the Controlling Shareholder***

Pursuant to Rule 10.07 of the Listing Rules, the Controlling Shareholder has irrevocably and unconditionally undertaken to the Stock Exchange and our Company that, it will not and will procure that the relevant registered shareholder(s) not, without the prior consent of the Stock Exchange:

1. except pursuant to the Global Offering:

   (a) within the period commencing on the date by reference to which disclosure of its shareholding in our Company is made in this prospectus and ending on the date which is six months from the Listing Date, 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 Domestic Shares or securities of our Company in respect of which it is shown in this prospectus to be the beneficial owners; or

   (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 Domestic Shares or 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 would cease to be our Controlling Shareholder;

2. within the period commencing on the date by reference to which disclosure of its shareholding in our Company is made in this prospectus and ending on the date which is 12 months from the Listing Date, it will:

   (a) when it pledges or charges any Domestic Shares or securities of our Company beneficially owned by it in favor of an authorised institution pursuant to Note (2) to Rule 10.07(2) of the Listing Rules, immediately inform our Company in writing of such pledge or charge together with the number of Domestic Shares or securities of our Company so pledged or charged; and

   (b) when it receives indications, either verbal or written, from the pledgee or chargee that any of the pledged or charged Domestic Shares or securities of our Company will be disposed of, immediately inform our Company of such indications.

Our Company will inform the Stock Exchange as soon as we have been informed of matters referred to above by the Controlling Shareholder and disclose such matters by way of announcement pursuant to the requirements under the Listing Rules as soon as possible.

**International Offering**

In connection with the International Offering, it is expected that our Company will enter into the International Underwriting Agreement with, among others, the Selling Shareholders, the Sole Global Coordinator and the International Underwriters, on terms and conditions that are substantially similar to the Hong Kong Underwriting Agreement as described above and on the additional terms described below. Under the International Underwriting Agreement, the International Underwriters will severally agree to subscribe or purchase or procure subscribers or purchasers for the International Offer Shares being offered pursuant to the International Offering.

**Over-allotment Option**

Our Company and the Selling Shareholders are expected to grant to the International Underwriters the Over-allotment Option, exercisable by the Sole Global Coordinator on behalf of the International Underwriters at any time from the date of the Price Determination Date until 30 days after the last date for the lodging of applications under the Hong Kong

Public Offering, to require our Company to allot and issue, and the Selling Shareholders to sell, up to an aggregate of 32,241,000 additional H Shares representing 15% of the Offer Shares initially offered under the Global Offering, at the same price per H Share under the International Offering to cover, among other things, over-allocations in the International Offering, if any.

**Commissions and Expenses**

The Company agrees to pay the Sole Global Coordinator (for itself and on behalf of the Underwriters) an underwriting commission at the rate of 3.0% of the aggregate Offer Price payable for the Offer Shares (including the H Shares to be issued pursuant to the Over-allotment Option). In addition, the Sponsor will receive a sponsor fee in the amount of RMB5.0 million (representing approximately HK$5.6 million).

The underwriting commissions, documentation fee, listing fees, Stock Exchange trading fee and transaction levy, legal and other professional fees, and printing and other expenses in relation to the Global Offering are estimated to amount to approximately HK$48.7 million in total (based on the Offer Price of HK$2.415 per H Share, being the mid-point of the indicative Offer Price range of HK$2.3 to HK$2.53 per H Share and assuming the Over-allotment Option is not exercised), and are payable by our Company.

## UNDERWRITERS' INTERESTS IN OUR COMPANY

The Sole Global Coordinator and other Underwriters will receive an underwriting commission. Particulars of these under underwriting commission and expenses are set out in the subsection headed "— Underwriting Arrangements and Expenses — Commissions and Expenses" in this section for further information.

Save for their obligations under the Underwriting Agreements, none of the Underwriters is interested legally or beneficially in any shares of any member of our Group nor has any right or option (whether legally enforceable or not) to subscribe for or purchase or to nominate persons to subscribe for or purchase securities in any member of our Group nor any interest in the Global Offering.

## MINIMUM PUBLIC FLOAT

Our Directors and our Company will ensure that there will be a minimum 25% of the total issued Shares held in public hands in accordance with Rule 8.08 of the Listing Rules after completion of the Global Offering.

## SOLE SPONSOR'S INDEPENDENCE

BOCOM International (Asia) Limited is considered to be an independent sponsor pursuant to Rule 3A.07 of the Listing Rules.

## ACTIVITIES BY SYNDICATE MEMBERS

The underwriters of the Hong Kong Public Offering and the International Offering (together, the "**Syndicate Members**") and their affiliates may each individually undertake a variety of activities (as further described below) which do not form part of the underwriting or stabilising process.

The Syndicate Members and their affiliates are diversified financial institutions with relationships in countries around the world. These entities engage in a wide range of commercial and investment banking, brokerage, funds management, trading, hedging, investing and other activities for their own account and for the account of others. In relation to the H Shares, those activities 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, proprietary trading in the H Shares, and entering into over the counter or listed derivative transactions or listed and unlisted securities transactions (including issuing securities such as derivative warrants listed on a stock exchange) which have as their underlying assets, assets including the H Shares. Those activities may require hedging activity by those entities involving, directly or indirectly, the buying and selling of the H Shares. All such activities could occur in Hong Kong and elsewhere in the world and may result in the Syndicate Members and their affiliates holding long and/or short positions in the 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 Syndicate Members or their 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 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 described in the section headed "Structure of the Global Offering" in this prospectus. 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 Syndicate Members will be subject to certain restrictions, including the following:

(a) the Syndicate Members 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 Syndicate Members must comply with all applicable laws and regulations, including the market misconduct provisions of the SFO, including the provisions prohibiting insider dealing, false trading, price rigging and stock market manipulation.

Certain of the Syndicate Members of their respective affiliates have provided from time to time, and expect to provide in the future, investment banking and other services to us and our affiliates for which such Syndicate Members or their respective affiliates have received or will receive customary fees and commissions.

## THE GLOBAL OFFERING

This prospectus is published in connection with the Hong Kong Public Offering as part of the Global Offering. BOCOM International (Asia) Limited is the Sole Sponsor, and BOCOM International Securities Limited is the Sole Global Coordinator.

The Global Offering consists of (subject to adjustment and the Over-allotment Option):

- the Hong Kong Public Offering of 21,494,000 H Shares (subject to adjustment as mentioned below) in Hong Kong as described under the subsection headed "The Hong Kong Public Offering" in this section below; and

- the International Offering of 193,446,000 H Shares, comprising 173,906,000 H Shares to be offered by us and 19,540,000 Sale Shares to be offered by the Selling Shareholders (subject to adjustment as mentioned below) outside the United States in reliance on Regulation S of the Securities Act as described under the subsection headed "The International Offering" in this section below.

Investors may apply for the Offer Shares under the Hong Kong Public Offering or indicate an interest, if qualified to do so, for the 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 in Hong Kong. The International Offering will involve selective marketing of the Offer Shares to institutional and professional investors and other investors outside the United States in reliance on Regulation S of the Securities Act.

The number of Offer Shares to be offered under the Hong Kong Public Offering and the International Offering respectively may be subject to adjustment as described in the subsection headed "Pricing and Allocation" in this section.

## PRICING AND ALLOCATION

### Offer Price

The Offer Price will be not more than HK$2.53 per Offer Share and is expected to be not less than HK$2.30 per Offer Share, unless otherwise announced not later than the morning of the last day for lodging applications under the Hong Kong Public Offering, as explained below. 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.

### Price Payable on Application

Applicants under the Hong Kong Public Offering must pay, on application, the maximum indicative Offer Price of HK$2.53 per Hong Kong Public Offer Share plus 1% brokerage, a 0.0027% SFC transaction levy and a 0.005% Stock Exchange trading fee, amounting to a total of HK$2,555.5 for one board lot of 1,000 H Shares. Each Application Form includes a table showing the exact amount payable on certain numbers of Offer Shares. If the Offer Price as finally determined in the manner described below, is less than HK$2.53 per Offer Share, appropriate refund payments (including the brokerage, the SFC transaction levy and the Stock Exchange trading fee attributable to the surplus application monies) will be made to successful applicants without interest. See the section headed "How to Apply for Hong Kong Public Offer Shares — 13. Refund of Application Monies" in this prospectus for further details.

**Determining the Offer Price**

The International Underwriters are soliciting from prospective investors indications of interest in acquiring the Offer Shares in the International Offering. Prospective 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 Price Determination Date.

The Offer Price is expected to be fixed by agreement between the Sole Global Coordinator (for itself and on behalf of the Underwriters) and our Company (for ourselves and on behalf of the Selling Shareholder) on the Price Determination Date, when market demand for the Offer Shares will be determined. The Price Determination Date is expected to be on or around Friday, 24 March 2017 and in any event, no later than 12:00 noon on Wednesday, 29 March 2017.

**If, for any reason, our Company (for ourselves and on behalf of the Selling Shareholder) and the Sole Global Coordinator (for itself and on behalf of the Underwriters) are unable to reach agreement on the Offer Price at or before 12:00 noon on Wednesday, 29 March 2017, the Global Offering will not proceed and will lapse.**

**Reduction in Offer Price range and/or number of Offer Shares**

If, based on the level of interest expressed by prospective institutional, professional and other investors during the book-building process, the Sole Global Coordinator (for itself and on behalf of the Underwriters) considers it appropriate and together with the consent of our Company (for ourselves and on behalf of the Selling Shareholder), the indicative Offer Price range and/or the number of Hong Kong Public Offer Shares may be reduced below that stated in this prospectus at any time prior to the morning of the last day for lodging applications under the Hong Kong Public Offering.

In such a case, our Company (for ourselves and on behalf of the Selling Shareholder) will, as soon as practicable following the decision to make any such reduction, and in any event not later than the morning of the last day for lodging applications under the Hong Kong Public Offering, cause to be published on the website of the Stock Exchange at **www.hkexnews.hk** and our Company's website at **www.lzss.com** notice of the reduction in the indicative Offer Price range and/or number of Offer Shares. Such notice will also include confirmation or revision, as appropriate, of the offering statistics as currently set out in the section headed "Summary" in this prospectus and any other financial information which may change as a result of such reduction. The Offer Price, if agreed upon, will be fixed within such revised Offer Price range. In the absence of the publication of any such notice, the Offer Price shall under no circumstances be set outside the Offer Price range indicated in this prospectus.

**Before submitting applications for Hong Kong Public Offer Shares, applicants should have regard to the possibility that any announcement of a reduction in the indicative Offer Price range and/or number of Offer Shares may not be made until the day which is the last day for lodging applications under the Hong Kong Public Offering.**

**Allocation**

The H Shares to be offered in the Hong Kong Public Offering and the International Offering may, in certain circumstances, be reallocated as between these offerings at the discretion of the Sole Global Coordinator.

Allocation of the 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 H Shares after Listing. Such allocation may be made to professional, institutional and corporate investors and is intended to result in a distribution of the H Shares on a basis which would lead to the establishment of a stable shareholder base to the benefit of our Company and the Shareholders as a whole.

Allocation of the H Shares to investors under the Hong Kong Public Offering will be based solely on the level of valid applications received under the Hong Kong Public Offering. The basis of allocation may vary, depending on the number of Hong Kong Public Offer Shares validly applied for by applicants. The allocation of Hong Kong Public 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 Public Offer Shares, and those applicants who are not successful in the ballot may not receive any Hong Kong Public Offer Shares.

**Announcement of final Offer Price and basis of allocations**

The applicable final Offer Price, the level of indications of interest in the International Offering and the basis of allocations of the Hong Kong Public Offer Shares are expected to be announced on Thursday, 30 March 2017 on the website of the Stock Exchange at **www.hkexnews.hk** and our Company's website at **www.lzss.com**.

Results of allocations in the Hong Kong Public Offering, including the Hong Kong identity card/passport/Hong Kong business registration numbers of successful applicants (where applicable) and the number of Hong Kong Public Offer Shares successfully applied for under **WHITE** and **YELLOW** Application Forms, or by giving **electronic application instructions** to HKSCC or by applying online through the **White Form eIPO** Service Provider under the **White Form eIPO** service, will be made available through a variety of channels as described in the subsection headed "How to Apply for Hong Kong Public Offer Shares — 11. Publication of Results" in this prospectus.

## CONDITIONS OF THE GLOBAL OFFERING

Acceptance of all applications for the Offer Shares pursuant to the Hong Kong Public Offering will be conditional upon, among other things:

- the Listing Committee granting listing of, and permission to deal in, the H Shares in issue and to be issued pursuant to the Global Offering (including the H Shares which may be made available or issued pursuant to the exercise of the Over-allotment Option);

- the Offer Price having been duly agreed on or around the Price Determination Date;

- the execution and delivery of the International Underwriting Agreement on or around the Price Determination Date; and

- the obligations of the Underwriters under each of the International Underwriting Agreement and the Hong Kong Underwriting Agreement becoming and remaining unconditional and not having been terminated in accordance with the terms of the respective agreements,

in each case on or before the dates and times specified in such 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 30 days after the date of this prospectus.

The consummation of each of the Hong Kong Public Offering and the International Offering is conditional upon, among other things, the other becoming unconditional and not having been terminated in accordance with its terms.

If the above conditions are not fulfilled or waived, prior to the dates and times specified, the Global Offering will lapse and the Stock Exchange will be notified immediately. Notice of the lapse of the Hong Kong Public Offering will cause to be published by us on the website of the Stock Exchange at **www.hkexnews.hk** and our Company's website at **www.lzss.com** on the next day following such lapse. In such eventuality, all application monies will be returned, without interest, on the terms set out in the subsection headed "How to Apply for Hong Kong Public Offer Shares — 13. Refund of Application Monies" in this prospectus. In the meantime, the application monies will be held in separate bank account(s) with the receiving bank or other bank(s) in Hong Kong licensed under the Banking Ordinance (Chapter 155 of the Laws of Hong Kong) (as amended).

**H Share certificates for the Offer Shares are expected to be issued on Thursday, 30 March 2017 but will only become valid certificates of title at 8:00 a.m. on Friday, 31 March 2017, provided that (i) the Global Offering has become unconditional in all respects and (ii) the right of termination as described in the section headed "Underwriting — Underwriting Arrangements and Expenses — Hong Kong Public Offering — Grounds for termination" in this prospectus has not been exercised.**

## THE HONG KONG PUBLIC OFFERING

### Number of H Shares initially offered

Our Company is initially offering 21,494,000 H Shares for subscription by the public in Hong Kong at the Offer Price, representing 10% of 214,940,000 H Shares initially available under the Global Offering. Subject to adjustment as mentioned below, the number of H Shares offered under the Hong Kong Public Offering will represent approximately 2.50% of the total registered share capital of our Company immediately after completion of the Global Offering, assuming that the Over-allotment Option is not exercised. The Hong Kong Public Offering is open to members of the public in Hong Kong as well as to institutional and professional investors. Professional investors generally include brokers, dealers, 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. Completion of the Hong Kong Public Offering is subject to the conditions as set out in the subsection headed "Conditions of the Global Offering" in this section.

### Allocation

For allocation purposes only, the Hong Kong Public 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 of odd lot size). Pool A will comprise 10,747,000 Hong Kong Public Offer Shares and Pool B will comprise 10,747,000 Hong Kong Public Offer Shares, both of which are available on a fair basis to successful applicants. All valid applications that have been received for Hong Kong Public Offer Shares with a total amount (excluding brokerage fee, the 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 Hong Kong Public Offer Shares with a total amount (excluding brokerage fee, the SFC transaction levy and the 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 are likely to receive different allocation ratios. If Hong Kong Public Offer Shares in one pool (but not both pools) are undersubscribed, the surplus Hong Kong Public 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 Hong Kong Public Offer Shares from either Pool A or Pool B but not from both pools and may only apply for Hong Kong Public Offer Shares in either Pool A or Pool B. In addition, multiple or suspected multiple applications within either pool or between pools will be rejected. No application will be accepted from applicants for more than 10,747,000 Hong Kong Public Offer Shares (being 50% of the initial number of Hong Kong Public Offer Shares).

### Reallocation

The allocation of the 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 Offer Shares initially available under the Hong Kong Public Offering, the total number of Offer Shares available under the Hong Kong Public Offering will be increased to 64,482,000, 85,976,000 and 107,470,000 H 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). 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 deems appropriate, and such additional Offer Shares will be allocated to Pool A and Pool B on a fair basis.

If the Hong Kong Public Offer Shares are not fully subscribed, the Sole Global Coordinator has the authority to reallocate all or any unsubscribed Hong Kong Public Offer Shares to the International Offering, in such proportions as the Sole Global Coordinator deems appropriate. In addition, the Sole Global Coordinator may reallocate International Offer Shares (other than the Sale Shares which are to be offered for sale by the Selling Shareholders pursuant to the International Offering) from the International Offering to the Hong Kong Public Offering to satisfy valid applications under the Hong Kong Public Offering.

The Offer Shares (other than the Sale Shares which are to be offered for sale by the Selling Shareholders pursuant to the International Offering) to be offered in the Hong Kong Public Offering and the International Offering may, in certain circumstances, be reallocated as between these offerings at the discretion of the Sole Global Coordinator.

**Applications**

The Sole Global Coordinator (for itself and on behalf of the Underwriters) may require any investor who has been offered Offer Shares under the International Offering, and who has made an application under the Hong Kong Public Offering to provide sufficient information to the Sole Global Coordinator 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 Offer Shares under the Hong Kong Public Offering.

Each applicant under the Hong Kong Public Offering will also be required to give an undertaking and confirmation in the application submitted by him that he and any person 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 or confirmation is breached or untrue (as the case may be) or it has been or will be placed or allocated Offer Shares under the International Offering.

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 Offer Shares offered

The number of the Offer Shares to be initially offered for subscription by our Company and for sale by the Selling Shareholders under the International Offering will be 193,446,000 H Shares, representing 90% of the Offer Shares under the Global Offering. The International Offering is subject to the Hong Kong Public Offering becoming unconditional.

### Allocation

Pursuant to the International Offering, the International Underwriters will conditionally place the Shares with 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 of the Securities Act. Allocation of the International Offer Shares pursuant to the International Offering will be effected in accordance with the "book-building" process described in the subsection headed "Pricing and Allocation" in this section and 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 H Shares, and/or hold or sell its International Offer Shares after the Listing. Such allocation is intended to result in a distribution of the International Offer Shares on a basis which would lead to the establishment of a stable shareholder base to the benefit of our Company and the Shareholders as a whole.

## OVER-ALLOTMENT OPTION

Our Company and the Selling Shareholders are expected to grant to the International Underwriters the Over-allotment Option, exercisable by the Sole Global Coordinator on behalf of the International Underwriters at any time and from time to time from the Listing Date, up to (and including) the date which is the 30th day after the last day for lodging of Application Forms under the Hong Kong Public Offering. An announcement will be made in the event that the Over-allotment Option is exercised. Pursuant to the Over-allotment Option, our Company and the Selling Shareholders may be required to sell up to 32,241,000 H Shares, representing 15% of the maximum number of Offer Shares initially available under the Global Offering, at the Offer Price.

## THE SELLING SHAREHOLDERS

The Selling Shareholders are initially offering a total of 19,540,000 Sale Shares as part of the Global Offering. The Selling Shareholders may sell up to an aggregate of 22,471,000 Sale Shares if the Over-allotment Option is exercised in full.

Pursuant to a letter issued by the NSSF (She Bao Ji Jin Fa [2016] No. 132) on 13 October 2016, the NSSF instructed us to (i) arrange for the sale of the Sale Shares which shall equal to 10% of the number of the Offer Shares to be offered by our Company, and (ii) remit the proceeds from the sale of the Sale Shares (after deducting the SFC transaction levy and Hong Kong Stock Exchange trading fee) to the account designated by the NSSF.

## STABILISATION AND OVER-ALLOTMENT

Stabilisation is a practice used by underwriters in some markets to facilitate the distribution of securities. To stabilise, the underwriters may bid for, or purchase, the new securities in the secondary market during a specified period of time to retard and, if possible, prevent any decline in the market price of the securities below the offer price. In Hong Kong, activity aimed at reducing the market price is prohibited and the price at which stabilisation is effected is not permitted to exceed the offer price.

In connection with the Global Offering, BOCOM International Securities Limited, as Stabilising Manager, or any person acting for it, on behalf of the Underwriters, may, to the extent permitted by applicable laws of Hong Kong or elsewhere, over-allocate or effect any other transactions with a view to stabilising or maintaining the market price of the Offer 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 H Shares will be effected in compliance with all applicable laws and regulatory requirements. However, there is no obligation on Stabilising Manager or any person acting for it to conduct any such stabilising activity, which if commenced, will be done at the absolute discretion of Stabilising Manager and may be discontinued at any time. Any such stabilising activity is required to be brought to an end within 30 days of the last day for the lodging of applications under the Hong Kong Public Offering. The number of Offer Shares that may be over-allocated will not exceed the number of Offer Shares that may be sold under the Over-allotment Option, namely, 32,241,000 Offer Shares, which is 15% of the Offer Shares initially available under the Global Offering.

Stabilising action permitted in Hong Kong pursuant to the Securities and Futures (Price Stabilising) Rules (Chapter 571W of the Laws of Hong Kong) includes: (i) over-allocation for the purpose of preventing or minimising any reduction in the market price of the H Shares; (ii) selling or agreeing to sell the Offer Shares so as to establish a short position in them for the purpose of preventing or minimising any reduction in the market price of the Offer Shares; (iii) purchasing or subscribing for, or agreeing to purchase or subscribe for, the Offer Shares pursuant to the Over-allotment Option in order to close out any position established under (i) or (ii) above; (iv) purchasing, or agreeing to purchase, any of the Offer Shares for the sole purpose of preventing or minimising any reduction in the market price of the H Shares; (v) selling or agreeing to sell any Offer Shares in order to liquidate any position held as a result of those purchases; and (vi) offering or attempting to do anything described in (ii), (iii), (iv) or (v).

Stabilising action by the Stabilising Manager, or any person acting for it, will be entered into in accordance with the laws, rules and regulations in place in Hong Kong on stabilisation.

Specifically, prospective applicants for and investors in the H Shares should note that:

- Stabilising Manager, or any person acting for it, may, in connection with the stabilising action, maintain a long position in the H Shares;

- there is no certainty regarding the extent to which and the time period for which Stabilising Manager, or any person acting for it, will maintain such a position;

- liquidation of any such long position by Stabilising Manager may have an adverse impact on the market price of the H Shares;

- no stabilising action can be taken to support the price of the H Shares for longer than the stabilising period which will begin on the Listing Date following announcement of the Offer Price, and is expected to expire on the last business day immediately before 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 the H Shares, and therefore the price of the H Shares, could fall;

- the price of the H Shares cannot be assured to stay at or above the Offer Price either during or after the stabilising period by taking of any stabilising action; and

- stabilising bids may be made or transactions effected in the course of the stabilising action at any price at or below the Offer Price, which means that stabilising bids may be made or transactions effected at a price below the price paid by applicants for, or investors in, the H Shares.

Our Company will ensure or procure that a public announcement in compliance with the Securities and Futures (Price Stabilising) Rules (Chapter 571W of the Laws of Hong Kong) will be made within seven days of the expiration of the stabilising period.

In connection with the Global Offering, Stabilising Manager may over-allocate up to and not more than an aggregate of 32,241,000 additional H Shares and cover such over-allocations by exercising the Over-allotment Option, or by making purchases in the secondary market at prices that do not exceed the Offer Price or a combination of these means.

## SHARES WILL BE ELIGIBLE FOR CCASS

All necessary arrangements have been made enabling the H Shares to be admitted into CCASS. If the Stock Exchange grants the listing of, and permission to deal in, the H Shares and our Company complies 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 HKSCC chooses. 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.

## DEALING ARRANGEMENTS

Assuming that the Hong Kong Public Offering becomes unconditional at or before 8:00 a.m. in Hong Kong on Friday, 31 March 2017, it is expected that dealings in the H Shares on the Stock Exchange will commence at 9:00 a.m. on Friday, 31 March 2017. The H Shares will be traded in board lots of 1,000 H Shares each and the stock code of the Company is 2281.

## 1. HOW TO APPLY

If you apply for Hong Kong Public Offer Shares, then you may not apply for or indicate an interest for International Offer Shares.

To apply for Hong Kong Public Offer Shares, you may:

- use a **WHITE** or **YELLOW** Application Form;
- apply online via the **White Form eIPO** at **www.eipo.com.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.

Our Company, the Sole Global Coordinator, the **White Form eIPO** 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 Public Offer Shares on a **WHITE** or **YELLOW** Application Form if you or the person(s) for whose benefit you are applying:

- are 18 years of age or older;
- have a Hong Kong address;
- are outside the United States, and are not a United States Person (as defined in Regulation S under the U.S. Securities Act); and
- are not a legal or natural person of the PRC.

If you apply online through the **White Form eIPO**, 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 its discretion and on any conditions it thinks fit, including evidence of the attorney's authority.

The number of joint applicants may not exceed four and they may not apply by means of **White Form eIPO** for the Hong Kong Public Offer Shares.

Unless permitted by the Listing Rules, you cannot apply for any Hong Kong Public Offer Shares if you are:

- an existing beneficial owner of Shares in our Company and/or any of our subsidiaries;
- a Director or chief executive officer of our Company and/or any of our subsidiaries;
- a connected person (as defined in the Listing Rules) of our Company or will become a connected person of our 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 or indicated an interest in any offer shares under the International Offering.

## 3. APPLYING FOR HONG KONG PUBLIC OFFER SHARES

### Which Application Channel to Use

For Hong Kong Public Offer Shares to be issued in your own name, use a **WHITE** Application Form or apply online through **www.eipo.com.hk**.

For Hong Kong Public Offer Shares to be issued in the name of HKSCC Nominees and deposited directly into CCASS to be credited to your or a designated CCASS Participant's stock account, use a **YELLOW** Application Form or electronically instruct HKSCC via CCASS to cause HKSCC Nominees to apply for you.

### Where to Collect the Application Forms

You can collect a **WHITE** Application Form and a prospectus during normal business hours from 9:00 a.m. on Tuesday, 21 March 2017 until 12:00 noon on Friday, 24 March 2017 from:

(i) any of the following addresses of the Hong Kong Underwriters:

| | **Address** |
|---|---|
| BOCOM International Securities Limited | 9th Floor, Man Yee Building, 68 Des Voeux Road Central, Hong Kong |
| First Capital Securities Limited | Unit 4512, 45/F., The Center 99 Queen's Road Central Hong Kong |
| Haitong International Securities Company Limited | 22/F Li Po Chun Chambers 189 Des Voeux Road Central Hong Kong |

(ii) any of the branches of the following receiving bank:

**Bank of Communications Co., Ltd. Hong Kong Branch**

| District | Branch Name | Address |
|---|---|---|
| Hong Kong Island | Central District Sub-Branch | G/F., Far East Consortium Building, 125A Des Voeux Road C., Central |
| | King's Road Sub-Branch | G/F., Kailey Court, 67–71 King's Road |
| Kowloon | Sham Shui Po Sub-Branch | Shop G1–G3, G11–G13, G19–G21, G/F., Golden Centre, 94 Yen Chow Street, Sham Shui Po |
| | Wong Tai Sin Sub-Branch | Shop N118, 1/F., Temple Mall North, 136 Lung Cheung Road, Wong Tai Sin |
| | Kwun Tong Sub-Branch | Shop E, Block G & H, G/F., East Sun Industrial Centre, 16 Shing Yip Street, Kwun Tong |
| New Territories | Sheung Shui Sub-Branch | Shops 1010–1014, G/F., Sheung Shui Centre, Sheung Shui |

You can collect a **YELLOW** Application Form and a prospectus during normal business hours from 9:00 a.m. on Tuesday, 21 March 2017 until 12:00 noon on Friday, 24 March 2017 from the Depository Counter of HKSCC at 1/F, One & Two Exchange Square, 8 Connaught Place, Central, Hong Kong or from your stockbroker.

**Time for Lodging Application Forms**

Your completed **WHITE** or **YELLOW** Application Form, together with a cheque or a banker's cashier order attached and marked payable to "**Bank of Communications (Nominee) Co. Ltd. — Xinglu Water Public Offer**" for the payment, should be deposited in the special collection boxes provided at any of the designated branches of the receiving bank listed above, at the following times:

**Tuesday, 21 March 2017 — 9:00 a.m. to 5:00 p.m.**
**Wednesday, 22 March 2017 — 9:00 a.m. to 5:00 p.m.**
**Thursday, 23 March 2017 — 9:00 a.m. to 5:00 p.m.**
**Friday, 24 March 2017 — 9:00 a.m. to 12:00 noon**

The application lists will be open from 11:45 a.m. to 12:00 noon on Friday, 24 March 2017, the last application day or such later time as described in the subsection headed "10. Effect of Bad Weather on the Opening of the Applications Lists" in this section.

## 4. TERMS AND CONDITIONS OF AN APPLICATION

Follow the detailed instructions in the Application Form carefully; otherwise, your application may be rejected.

By completing and submitting an Application Form or applying through the **White Form eIPO**, among other things, you (and if you are joint applicants, each of you are point applicants, each of you jointly and severally) for yourself or as an agent or a nominee on behalf of each person you act:

(i) undertake to execute all relevant documents and instruct and authorise our Company and/or the Sole Global Coordinator (or its agents or nominees), as agents of our Company, to execute any documents for you and to do on your behalf all things necessary to register any Hong Kong Public Offer Shares allocated to you in your name or in the name of HKSCC Nominees as required by the Articles of Association;

(ii) agree to comply with the Companies Ordinance, Companies (Winding Up and Miscellaneous Provisions) Ordinance 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 our Company, the Sole Global Coordinator, the Sole Sponsor, the Joint Bookrunners, the Joint Lead Managers, the Underwriters, 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 Offer Shares under the International Offering nor participated in the International Offering;

(viii) agree to disclose to our Company, our H Share Registrar, the receiving bank, the Sole Global Coordinator, the Sole Sponsor, the Joint Bookrunners, the Joint Lead Managers, the Underwriters and/or their respective advisers and agents any personal data which they may require about you and the person(s) for whose benefit you have made the application;

(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 our Company, the Selling Shareholders, the Sole Global Coordinator, the Sole Sponsor, the Joint Bookrunners, the Joint Lead Managers and the Underwriters nor any of their respective officers or advisers will breach any law outside Hong Kong as a result of the acceptance of your offer to purchase, or any action arising from your rights and obligations under the terms and conditions contained in this prospectus and the Application Form;

(x) agree that once your application has been accepted, you may not rescind it because of an innocent misrepresentation;

(xi) agree that your application will be governed by the laws of Hong Kong;

(xii) represent, warrant and undertake that (i) you understand that the Hong Kong Public Offer Shares have not been and will not be registered under the U.S. Securities Act; and (ii) you and any person for whose benefit you are applying for the Hong Kong Public Offer Shares are outside the United States (as defined in Regulation S) 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 Public Offer Shares applied for, or any lesser number allocated to you under the application;

(xv) authorise our Company to place your name(s) or the name of the HKSCC Nominees, on our Company's register of members as the holder(s) of any Hong Kong Public Offer Shares allocated to you, and our Company and/or our agents to deposit any H Share certificate(s) and/or any e-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 are eligible to collect the H 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 our 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 Public 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 **White Form eIPO** Service Provider by you or by any one as your agent or by any other person;

(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.

(xx) agree with our Company, for itself and for the benefit of each Shareholder (and so that our Company will be deemed by its acceptance in whole or in part of the application by you to have agreed with each Shareholder) to observe and comply with the Companies (Winding Up and Miscellaneous Provisions) Ordinance and the Articles of Association;

(xxi) agree with our Company, for itself and for the benefit of each Shareholder and each Director, Supervisor, manager and other senior officer of our Company (and so that our 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 our Company and each Director, Supervisor, manager and other senior officer of our Company, with each Shareholder);

(a) to refer all differences and claims arising from the Articles of Association or any rights or obligations conferred or imposed by the PRC Company Law or other relevant laws and administrative regulations concerning the affairs of our 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;

(xxii) agree with our Company (for our Company itself and for the benefit of each Shareholder) that H shares in our Company are freely transferable by their holders; and

(xxiii) authorise our Company to enter into a contract on its behalf with each Director and officer of our Company whereby each such Director and officer undertakes to observe and comply with his obligations to Shareholders stipulated in the Articles of Association.

**Additional Instructions for Yellow Application Form**

You may refer to the **Yellow** Application Form for details.

## 5. APPLYING THROUGH WHITE FORM eIPO

### General

Individuals who meet the criteria in the subsection headed "2. Who Can Apply" in this section, may apply through the **White Form eIPO** for the Offer Shares to be allotted and registered in their own names through the designated website at **www.eipo.com.hk**.

Detailed instructions for application through the **White Form eIPO** are on the designated website. If you do not follow the instructions, your application may be rejected and may not be submitted to our Company. If you apply through the designated website, you authorise the **White Form eIPO** Service Provider to apply on the terms and conditions in this prospectus, as supplemented and amended by the terms and conditions of the **White Form eIPO**.

### Time for Submitting Applications under the White Form eIPO

You may submit your application to the **White Form eIPO** Service Provider at **www.eipo.com.hk** (24 hours daily, except on the last application day) from 9:00 a.m. on Tuesday, 21 March 2017 until 11:30 a.m. on Friday, 24 March 2017 and the latest time for completing full payment of application monies in respect of such applications will be 12:00 noon on Friday, 24 March 2017 or such later time under the "10. Effect of Bad Weather on the Opening of the Applications Lists" in this section.

### No Multiple Applications

If you apply by means of **White Form eIPO**, once you complete payment in respect of any **electronic application instruction** given by you or for your benefit through the **White Form eIPO** to make an application for Hong Kong Public Offer Shares, an actual application shall be deemed to have been made. For the avoidance of doubt, giving an **electronic application instruction** under **White Form eIPO** 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.

If you are suspected of submitting more than one application through the **White Form eIPO** or by any other means, all of your applications are liable to be rejected.

### Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance

For the avoidance of doubt, our Company and all other parties involved in the preparation of this prospectus acknowledge that each 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 (Winding Up and Miscellaneous Provisions) Ordinance (as applied by Section 342E of the Companies (Winding Up and Miscellaneous Provisions) Ordinance).

**Environmental Protection**

The obvious advantage of **White Form eIPO** is to save the use of paper via the self-serviced and electronic application process. Computershare Hong Kong Investor Services Limited, being the **White Form eIPO** Service Provider, will contribute HK$2.00 per each "Luzhou Xinglu Water (Group) Co., Ltd." **White Form eIPO** application submitted via **www.eipo.com.hk** to support the funding of the "Source of Dong Jiang — Hong Kong Forest" project initiated by Friends of the Earth (HK).

## 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 Public Offer Shares and to arrange payment of the money due on application and payment of refunds under their participant agreements with HKSCC and the General Rules of CCASS and the CCASS Operational Procedures.

If you are a CCASS Investor Participant, you may give these **electronic application instructions** through the CCASS Phone System by calling +852 2979 7888 or through the CCASS Internet System at **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 the above address.

If you are not a CCASS Investor Participant, you may instruct your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give **electronic application** instructions via CCASS terminals to apply for the Hong Kong Public Offer Shares on your behalf.

You will be deemed to have authorised HKSCC and/or HKSCC Nominees to transfer the details of your application to our 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 Public Offer Shares and a **WHITE** Application Form is signed by HKSCC Nominees on your behalf:

(i) HKSCC Nominees will only be acting as a nominee for you and is not liable for any breach of the terms and conditions of the **WHITE** Application Form or this prospectus;

(ii) HKSCC Nominees will do the following things on your behalf:

- agree that the Hong Kong Public Offer Shares to be allotted shall be issued in the name of HKSCC Nominees and deposited directly into CCASS for the credit of the CCASS Participant's stock account on your behalf or your CCASS Investor Participant's stock account;

- agree to accept the Hong Kong Public Offer Shares applied for or any lesser number allocated;

- undertake and confirm that you have not applied for or taken up, will not apply for or take up, or indicate an interest for, any Offer Shares under the International Offering;

- (if the **electronic application instructions** are given for your benefit) declare that only one set of **electronic application instructions** has been given for your benefit;

- (if you are an agent for another person) declare that you have only given one set of **electronic application instructions** for the other person's benefit and are duly authorised to give those instructions as their agent;

- confirm that you understand that our Company, the Selling Shareholders, our 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 Public Offer Shares to you and that you may be prosecuted if you make a false declaration;

- authorise our Company to place HKSCC Nominees' name on our Company's register of members as the holder of the Hong Kong Public Offer Shares allocated to you and to send H 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 our Company, the Sole Global Coordinator, the Underwriters, 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 our Company, the Selling Shareholders, our H Share Registrar, the receiving bank, the Sole Global Coordinator, the Sole Sponsor, the Joint Bookrunners, the Joint Lead Managers, the Underwriters 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 our Company agreeing that we will not offer any Hong Kong Public Offer Shares to any person before the fifth day after the time of the opening of the application lists (excluding any day 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 (Winding Up and Miscellaneous Provisions) Ordinance gives a public notice under that section which excludes or limits that person's responsibility for this prospectus;

- agree that once HKSCC Nominees' application is accepted, neither that application nor your **electronic application instructions** can be revoked, and that acceptance of that application will be evidenced by our Company's announcement of the Hong Kong Public Offering results;

- agree to the arrangements, undertakings and warranties under the participant agreement between you and HKSCC, read with the General Rules of CCASS and the CCASS Operational Procedures, for the giving **electronic application instructions** to apply for Hong Kong Public Offer Shares;

- agree with our Company, for ourselves and for the benefit of each Shareholder (and so that our Company will be deemed by its acceptance in whole or in part of the application by HKSCC Nominees to have agreed, for ourselves and on behalf of each of the Shareholders, with each CCASS Participant giving **electronic application instructions**) to observe and comply with the PRC Company Law, the Special Regulations, the Companies (Winding Up and Miscellaneous Provisions) Ordinance and the Articles of Association;

- agree with our Company, for itself and for the benefit of each Shareholder and each Director, Supervisor, manager and other senior officer of our Company (and so that our 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 our Company and each Director, Supervisor, manager and other senior officer of our 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 PRC Company Law or other relevant laws and administrative regulations concerning the affairs of our 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 our Company (for our Company itself and for the benefit of each Shareholder) that H shares in our Company are freely transferable by their holders;

- authorise our Company to enter into a contract on its behalf with each Director and officer of our 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.

**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 our 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 Public 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 Public Offer Shares. Instructions for more than 1,000 Hong Kong Public Offer Shares must be in one of the numbers set out in the table in the Application Forms. No application for any other number of Hong Kong Public Offer Shares will be considered and any such application is liable to be rejected.

**Time for Inputting Electronic Application Instructions**

CCASS Clearing/Custodian Participants can input **electronic application instructions** at the following times on the following dates:

**Tuesday, 21 March 2017 — 9:00 a.m. to 8:30 p.m.[(1)]**
**Wednesday, 22 March 2017 — 8:00 a.m. to 8:30 p.m.[(1)]**
**Thursday, 23 March 2017 — 8:00 a.m. to 8:30 p.m.[(1)]**
**Friday, 24 March 2017 — 8:00 a.m.[(1)] to 12:00 noon**

*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 Tuesday, 21 March 2017 until 12:00 noon on Friday, 24 March 2017 (24 hours daily, except on the last application day).

The latest time for inputting your **electronic application instructions** will be 12:00 noon on Friday, 24 March 2017, the last application day or such later time as described in the subsection headed “10. Effect of Bad Weather on the Opening of the Application Lists” in this section.

**No Multiple Applications**

If you are suspected of having made multiple applications or if more than one application is made for your benefit, the number of Hong Kong Public Offer Shares applied for by HKSCC Nominees will be automatically reduced by the number of Hong Kong Public Offer Shares for which you have given such instructions and/or for which such instructions have been given for your benefit. Any **electronic application instructions** to make an application for the Hong Kong Public Offer Shares given by you or for your benefit to HKSCC shall be deemed to be an actual application for the purposes of considering whether multiple applications have been made.

**Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance**

For the avoidance of doubt, our Company and all other parties involved in the preparation of this prospectus acknowledge that each CCASS Participant who gives or causes to give **electronic application instructions** is a person who may be entitled to compensation under Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (as applied by Section 342E of the Companies (Winding Up and Miscellaneous Provisions) Ordinance).

**Personal Data**

The section of the Application Form headed “Personal Data” applies to any personal data held by our Company, the Selling Shareholder, our H Share Registrar, the receiving banker, the Sole Global Coordinator, the Sole Sponsor, the Joint Bookrunners, the Joint Lead Managers, the Underwriters 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 Public Offer Shares by giving **electronic application instructions** to HKSCC is only a facility provided to CCASS Participants. Similarly, the application for Hong Kong Public Offer Shares through the **White Form eIPO** is also only a facility provided by the **White Form eIPO** 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. Our Company, the Selling Shareholders, our Directors, the Sole Global Coordinator, the Sole Sponsor, the Joint Bookrunners and the Underwriters take no responsibility for such applications and provide no assurance that any CCASS Participant or person applying through the **White Form eIPO** will be allotted any Hong Kong Public Offer Shares.

To ensure that CCASS Investor Participants can give their **electronic application instructions**, they are advised not to wait until the last minute to input their instructions to the systems. In the event that CCASS Investor Participants have problems in the connection to CCASS Phone System/CCASS 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 Friday, 24 March 2017.

## 8. HOW MANY APPLICATIONS CAN YOU MAKE

Multiple applications for the Hong Kong Public Offer Shares are not allowed except by nominees. If you are a nominee, in the box on the Application Form marked "For nominees" you must include:

- an account number; or
- some other identification code,

for each beneficial owner or, in the case of joint beneficial owners, for each joint beneficial owner. If you do not include this information, the application will be treated as being made for your benefit.

All of your applications will be rejected if more than one application on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC or through **White Form eIPO**, 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 Stock Exchange.

"**Statutory control**" means you:

- control the composition of the board of directors of the company;
- control more than half of the voting power of the company; or

- hold more than half of the registered 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 PUBLIC OFFER SHARES

The **WHITE** and **YELLOW** Application Forms have tables showing the exact amount payable for the Hong Kong Public Offer Shares.

You must pay the maximum Offer Price, brokerage, SFC transaction levy and the Stock Exchange trading fee in full upon application for the Hong Kong Public Offer 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 **White Form eIPO** in respect of a minimum of 1,000 Hong Kong Public Offer Shares. Each application or **electronic application instruction** in respect of more than 1,000 Hong Kong Public Offer Shares must be in one of the numbers set out in the table in the Application Form, or as otherwise specified on the designated website at **www.eipo.com.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 the section headed "Structure of the Global Offering — Pricing and Allocation".

## 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 Friday, 24 March 2017. 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 Friday, 24 March 2017 or if there is a tropical cyclone warning signal number 8 or above or a "black" rainstorm warning signal in force in Hong Kong that may affect the dates mentioned in the section headed "Expected Timetable", an announcement will be made in such event.

## 11. PUBLICATION OF RESULTS

Our Company expects to announce the final Offer Price, the level of indication of interest in the International Offering, the level of applications in the Hong Kong Public Offering and the basis of allocation of the Hong Kong Public Offer Shares on Thursday, 30 March 2017 in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) on our Company's website at **www.lzss.com** 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 our Company's website at **www.lzss.com** and the Stock Exchange's website at **www.hkexnews.hk** by no later than 8:00 a.m. on Thursday, 30 March 2017;

- from the designated results of allocations website at **www.iporesults.com.hk** with a "search by ID" function on a 24-hour basis from 8:00 a.m. on Thursday, 30 March 2017 to 12:00 midnight on Wednesday, 5 April 2017;

- by telephone enquiry line by calling +852 2862 8669 between 9:00 a.m. and 10:00 p.m. from Thursday, 30 March 2017 to Sunday, 2 April 2017;

- in the special allocation results booklets which will be available for inspection during opening hours from Thursday, 30 March 2017 to Saturday, 1 April 2017 at all the receiving bank's designated branches and sub-branches.

If our Company accepts your offer to purchase (in whole or in part), which it may do by announcing the basis of allocations and/or making available the results of allocations publicly, there will be a binding contract under which you will be required to purchase the Hong Kong Public Offer Shares if the conditions of the Global Offering are satisfied and the Global Offering is not otherwise terminated. Further details are contained in the section headed "Structure of the Global Offering".

You will not be entitled to exercise any remedy of rescission for innocent misrepresentation at any time after acceptance of your application. This does not affect any other right you may have.

## 12. CIRCUMSTANCES IN WHICH YOU WILL NOT BE ALLOTTED HONG KONG PUBLIC OFFER SHARES

You should note the following situations in which the Hong Kong Public Offer Shares will not be allotted to you:

**(i) If your application is revoked:**

By completing and submitting an Application Form or giving **electronic application instructions** to HKSCC or to **White Form eIPO** 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 our Company.

Your application or the application made by HKSCC Nominees on your behalf may only be revoked on or before such fifth day if a person responsible for this prospectus under Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (as applied by Section 342E of the Companies (Winding Up and Miscellaneous Provisions) Ordinance) gives a public notice under that section which excludes or limits that person's responsibility for this prospectus.

If any supplement to this prospectus is issued, applicants who have already submitted an application will be notified that they are required to confirm their applications. If applicants have been so notified but have not confirmed their applications in accordance with the procedure to be notified, all unconfirmed applications will be deemed revoked.

If your application or the application made by HKSCC Nominees on your behalf has been accepted, it cannot be revoked. For this purpose, acceptance of applications which are not rejected will be constituted by notification in the press of the results of allocation, and where such basis of allocation is subject to certain conditions or provides for allocation by ballot, such acceptance will be subject to the satisfaction of such conditions or results of the ballot respectively.

**(ii) If our Company or our agents exercise their discretion to reject your application:**

Our Company, the Sole Global Coordinator, the **White Form eIPO** 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 Public Offer Shares is void:**

The allotment of Hong Kong Public 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

- within a longer period of up to six weeks if the Listing Committee notifies our Company of that longer period within three weeks of the closing date of the application lists.

**(iv) If:**

- you make multiple applications or suspected multiple applications;
- you or the person for whose benefit you are applying have applied for or taken up, or indicated an interest for, or have been or will be placed or allocated (including conditionally and/or provisionally) Hong Kong Public Offer Shares and International Offer Shares;
- your Application Form is not completed in accordance with the stated instructions;
- your **electronic application instructions** through the **White Form eIPO** 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;
- our Company or the Sole Global Coordinator believes that by accepting your application, it would violate applicable securities or other laws, rules or regulations; or
- your application is for more than 50% of the Hong Kong Public Offer Shares initially offered under the Hong Kong Public Offering.

## 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$2.53 per H Share (excluding brokerage, SFC transaction levy and the Stock Exchange trading fee thereon), or if the conditions of the Hong Kong Public Offering are not fulfilled in accordance with "Structure of the Global Offering — 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 or before Thursday, 30 March 2017.

## 14. DESPATCH/COLLECTION OF H SHARE CERTIFICATES AND REFUND MONIES

You will receive one H Share certificate for all Hong Kong Public Offer Shares allotted to you under the Hong Kong Public Offering (except pursuant to applications made on **YELLOW** Application Forms or by **electronic application instructions** to HKSCC via CCASS where the H 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:

- H Share certificate(s) for all the Hong Kong Public Offer Shares allotted to you (for **YELLOW** Application Forms, H 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 Public Offer Shares, wholly or partially unsuccessfully applied for; and/or (ii) the difference between the Offer Price and the maximum Offer Price per H 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 despatch/collection of H Share certificates and refund monies as mentioned below, any refund cheques and H Share certificates are expected to be posted on or before Thursday, 30 March 2017. The right is reserved to retain any H Share certificate(s) and any surplus application monies pending clearance of cheque(s) or banker's cashier's order(s).

H Share certificates will only become valid at 8:00 a.m. on Friday, 31 March 2017 provided that the Global Offering has become unconditional and the right of termination described in the "Underwriting" section in this prospectus has not been exercised. Investors who trade H Shares prior to the receipt of H Share certificates or the H Share certificates becoming valid do so at their own risk.

**Personal Collection**

***(i) If you apply using a WHITE Application Form***

If you apply for 1,000,000 or more Hong Kong Public Offer Shares and have provided all information required by your Application Form, you may collect your refund cheque(s) and/or H Share certificate(s) from our H Share Registrar at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, from 9:00 a.m. to 1:00 p.m. on Thursday, 30 March 2017 or such other date as notified by us.

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 our H Share Registrar.

If you do not collect your refund cheque(s) and/or H Share certificate(s) personally within the time specified for collection, they will be despatched promptly to the address specified in your Application Form by ordinary post at your own risk.

If you apply for less than 1,000,000 Hong Kong Public Offer Shares, your refund cheque(s) and/or H Share certificate(s) will be sent to the address on the relevant Application Form on or before Thursday, 30 March 2017, by ordinary post and at your own risk.

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

If you apply for 1,000,000 Hong Kong Public Offer Shares or more, please follow the same instructions as described above. If you have applied for less than 1,000,000 Hong Kong Public Offer Shares, your refund cheque(s) will be sent to the address on the relevant Application Form on or before Thursday, 30 March 2017, 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 H Share certificate(s) will be issued in the name of HKSCC Nominees and deposited into CCASS for credit to your or the designated CCASS Participant's stock account as stated in your Application Form on Thursday, 30 March 2017, or upon contingency, on any other date determined by HKSCC or HKSCC Nominees.

*If you apply through a designated CCASS Participant (other than a CCASS investor participant)*

For Hong Kong Public Offer Shares credited to your designated CCASS Participant's stock account (other than CCASS Investor Participant), you can check the number of Hong Kong Public Offer Shares allotted to you with that CCASS Participant.

*If you are applying as a CCASS Investor Participant*

Our Company will publish the results of CCASS Investor Participants' applications together with the results of the Hong Kong Public Offering in the manner described in "Publication of Results" above. You should check the announcement published by our Company and report any discrepancies to HKSCC before 5:00 p.m. on Thursday, 30 March 2017 or any other date as determined by HKSCC or HKSCC Nominees. Immediately after the credit of the Hong Kong Public Offer Shares to your stock account, you can check your new account balance via the CCASS Phone System and CCASS Internet System.

***(iii) If you apply through the White Form eIPO***

If you apply for 1,000,000 Hong Kong Public Offer Shares or more and your application is wholly or partially successful, you may collect your H Share certificate(s) from our H Share Registrar at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, from 9:00 a.m. to 1:00 p.m. on Thursday, 30 March 2017, or such other date as notified by our Company in the newspapers as the date of despatch/collection of H Share certificates/e-Refund payment instructions/refund cheques.

If you do not collect your H 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 Public Offer Shares, your H Share certificate(s) (where applicable) will be sent to the address specified in your application instructions on or before Thursday, 30 March 2017 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 despatched 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 despatched 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 Public Offer Shares*

For the purposes of allocating Hong Kong Public Offer Shares, HKSCC Nominees will not be treated as an applicant. Instead, each CCASS Participant who gives **electronic application instructions** or each person for whose benefit instructions are given will be treated as an applicant.

*Deposit of H Share Certificates into CCASS and Refund of Application Monies*

- If your application is wholly or partially successful, your H 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 Thursday, 30 March 2017, or, on any other date determined by HKSCC or HKSCC Nominees.

- Our Company expects to publish the application results of CCASS Participants (and where the CCASS Participant is a broker or custodian, our Company will include information relating to the relevant beneficial owner), your Hong Kong identity card number/passport number or other identification code (Hong Kong business registration number for corporations) and the basis of allotment of the Hong Kong Public Offering in the manner specified in "Publication of Results" above on Thursday, 30 March 2017. You should check the announcement published by our Company and report any discrepancies to HKSCC before 5:00 p.m. on Thursday, 30 March 2017 or such other date as determined by HKSCC or HKSCC Nominees.

- If you have instructed your broker or custodian to give **electronic application instructions** on your behalf, you can also check the number of Hong Kong Public Offer Shares allotted to you and the amount of refund monies (if any) payable to you with that broker or custodian.

- If you have applied as a CCASS Investor Participant, you can also check the number of Hong Kong Public Offer Shares allotted to you and the amount of refund monies (if any) payable to you via the CCASS Phone System and the CCASS Internet System (under the procedures contained in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time) on Thursday, 30 March 2017. Immediately following the credit of the Hong Kong Public Offer Shares to your stock account and the credit of refund monies to your bank account, HKSCC will also make available to you an activity statement showing the number of Hong Kong Public Offer Shares credited to your CCASS Investor Participant stock account and the amount of refund monies (if any) credited to your designated bank account.

- 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 Thursday, 30 March 2017.

## 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 (as defined in the Listing Rules) is required to take place in CCASS on the second business day after any trading day.

All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

Investors should seek the advice of their stockbroker or other professional 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 accountants, Deloitte Touche Tohmatsu, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this document.*

Deloitte. 德勤

21 March 2017

The Directors
Luzhou Xinglu Water (Group) Co., Ltd.

BOCOM International (Asia) Limited

Dear Sirs,

We set out below our report on the financial information (the "Financial Information") regarding Luzhou Xinglu Water (Group) Co., Ltd. (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") for each of the three years ended 31 December 2013, 2014 and 2015 and for the ten months ended 31 October 2016 (the "Track Record Period") for inclusion in the prospectus as of 21 March 2017 (the "Prospectus") in connection with the initial listing of the shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The Company was established in the People's Republic of China (the "PRC") on 31 July 2002 (date of establishment) as a limited liability company under the Company Law of the PRC. On 25 December 2015, the Company was converted into a joint stock limited liability company. The registration office of the Company is No. 16, Baizi Road, Jiangyang District, Luzhou, Sichuan Province, the PRC.

At the date of this report, the Company has direct equity interests in the following subsidiaries:

| | | Equity interest attributable to the Company | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | | At 31 December | | | At 31 October | At date of the report | | |
| Name of Company | Place and date of establishment | 2013 | 2014 | 2015 | 2016 | | Paid-up registered capital at date of this report | Principal activities |
| 瀘州市興瀘水務(集團)北郊水業有限公司 (Luzhou Xinglu Water (Group) Beijiao Water Co., Ltd.) ("Beijiao Water") . . . . . . . . | PRC 25 March 2004 | 63.77% | 64.07% | 64.69% | 86.78% | 86.78% | Renminbi ("RMB") 43,909,360 | Provision of water supply service |
| 瀘州市興瀘水務(集團)合江水業有限公司 (Luzhou Xinglu Water (Group) Hejiang Water Co., Ltd.) ("Hejiang Water") . . . | PRC 26 April 1999 | 85.93% | 85.93% | 85.93% | 85.93% | 85.93% | RMB8,639,500 | Provision of water supply service |

| Name of Company | Place and date of establishment | Equity interest attributable to the Company: At 31 December 2013 | 2014 | 2015 | At 31 October 2016 | At date of the report | Paid-up registered capital at date of this report | Principal activities |
|---|---|---|---|---|---|---|---|---|
| 瀘州市興瀘水務集團江南水業有限公司 (Luzhou Xinglu Water Group Jiangnan Water Co., Ltd.) ("Jiangnan Water")** | PRC 7 March 2003 | 49.05% | 49.30% | 49.96% | 49.96% | 49.96% | RMB6,520,000 | Provision of water supply service |
| 瀘州市興瀘水務(集團)納溪水業有限公司 (Luzhou Xinglu Water (Group) Naxi Water Co., Ltd.) ("Naxi Water") | PRC 17 March 2003 | 76.50% | 76.50% | 76.64% | 76.64% | 76.64% | RMB4,380,000 | Provision of water supply service |
| 瀘州市南郊水業有限公司 (Luzhou Nanjiao Water Co., Ltd.) ("Nanjiao Water")** | PRC 18 September 2002 | 43.38% | 44.75% | 45.79% | 45.79% | 45.79% | RMB9,766,000 | Provision of water supply service |
| 瀘州市四通自來水工程有限公司 (Luzhou Sitong Tap Water Engineering Co., Ltd.) ("Sitong Engineering") | PRC 2 September 2002 | 79.38% | 79.38% | 79.38% | 79.38% | 79.38% | RMB5,010,000 | Provision of engineering construction service |
| 瀘州市四通給排水工程設計有限公司 (Luzhou Sitong Water Supply and Drainage Engineering Design Co., Ltd.) ("Sitong Design") | PRC 6 September 2002 | 65.98% | 66.38% | 67.38% | 67.38% | 67.38% | RMB500,000 | Provision of water supply and drainage design service |
| 瀘州市興瀘污水處理有限公司 (Luzhou Xinglu Waste Water Treatment Co., Ltd.) ("Xinglu Wastewater Treatment") | PRC 11 December 2000 | 98.00% | 98.00% | 98.00% | 98.00% | 98.00% | RMB248,000,000 | Provision of wastewater treatment service |
| 瀘州市興瀘水務(集團)水晶商場有限公司(前稱瀘州市水晶商場) (Luzhou Xinglu Water (Group) Crystal Mall Co., Ltd., formerly known as Luzhou Water Crystal Mall) ("Luzhou Water Crystal Mall") | PRC 23 February 1996 | 100.00% | 100.00% | 100.00% | 100% | 100.00% | RMB520,000 | Sale of materials |

| Name of Company | Place and date of establishment | Equity interest attributable to the Company At 31 December 2013 | 2014 | 2015 | At 31 October 2016 | At date of the report | Paid-up registered capital at date of this report | Principal activities |
|---|---|---|---|---|---|---|---|---|
| 瀘州市中源淨水材料有限公司 (Luzhou Zhongyuan Water Purification Material Co., Ltd.) ("Zhongyuan Water Purification Material") | PRC 23 April 1998 | 64.00% | * N/A | N/A | N/A | N/A | N/A | Provision of water purification material supply service |
| 瀘州市忠山游泳有限公司 (Luzhou Zhongshan Swimming Co., Ltd.) ("Luzhou Zhongshan Swimming") . . . . . . | PRC 7 August 2000 | 62.25% | * N/A | N/A | N/A | N/A | N/A | Provision of swimming pool service |

The above English name is translated for identification purpose only.

* These companies were disposed of in June 2014.

** The directors of the Company consider that these entities are controlled by the Company because the Company holds majority voting right in their shareholders' meetings according to agreements with an individual (who has 9.89% and 14.34% of equity interests in Jiangnan Water and Nanjiao Water, respectively, for the period from 1 January 2013 to 11 December 2015 and 1.51% and 6.13% of equity interests in Jiangnan Water and Nanjiao Water, respectively, for the period from 12 December 2015 to 2 February 2016) who agreed to vote in the shareholders' meetings of these subsidiaries in accordance with the Company. Besides, on 3 February 2016, the Company also entered into agreements with a PRC limited liability partnership (which has 44.19% and 43.83% of equity interests in Jiangnan Water and Nanjiao Water, respectively, since then and the aforesaid individual transferred his certain equity interests in Jiangnan Water and Nanjiao Water to it on 12 December 2015) which agreed to vote in the shareholders' meetings of these subsidiaries in accordance with the Company.

At the date of this report, all the subsidiaries are limited liability companies established in the PRC and are held by the Company directly (excluding Zhongyuan Water Purification Material and Luzhou Zhongzhan Swimming (collectively referred to as the "Disposal Subsidiaries" which were disposed of in June 2014)). The Company and its subsidiaries have adopted 31 December as their financial year end date for statutory financial reporting purposes.

The statutory financial statements of the Company and its subsidiaries for each of the three years ended 2013, 2014 and 2015 (excluding the statutory financial statements of the Disposal Subsidiaries for the two years ended 31 December 2014 and 2015) were audited by Sichuan Huaxin (Group) CPA Firm (四川華信(集團)會計師事務所(特殊普通合夥)), certified public accountants in the PRC, and were prepared in accordance with the relevant accounting principles and financial regulations applicable to the enterprises established in the PRC.

For the purpose of this report, the directors of the Company have prepared the consolidated financial statements of the Group which comprise the Company and its subsidiaries for the Track Record Period in accordance with the accounting policies which confirm with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board (the "IASB") (the "Underlying Financial Statements"). We have undertaken an independent audit on the Underlying Financial

Statements in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") and have examined the Underlying Financial Statements in accordance with Auditing Guideline 3.340 "Prospectuses and the Reporting Accountant" as recommended by the HKICPA.

The Financial Information for the Track Record Period set out in this report has been prepared from the Underlying Financial Statements. No adjustments were deemed necessary to adjust the Underlying Financial Statements in preparing our report for inclusion in the Prospectus.

The Underlying Financial Statements are the responsibility of the directors of the Company who approved their issue. The directors of the Company are also responsible for the contents of the Prospectus in which this report is included. It is our responsibility to compile the Financial Information set out in this report from the Underlying Financial Statements, to form an independent opinion on the Financial Information and to report our opinion to you.

In our opinion, the Financial Information gives, for the purpose of this report, a true and fair view of the financial position of the Group and the Company as at 31 December 2013, 2014 and 2015 and 31 October 2016 and of the financial performance and consolidated cash flows of the Group for the Track Record Period.

The comparative consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows of the Group for the ten months ended 31 October 2015 together with the notes thereon have been extracted from the Group's unaudited consolidated financial information for the same period (the "31 October 2015 Financial Information") which was prepared by the directors of the Company solely for the purpose of this report. We conducted our review of the 31 October 2015 Financial Information in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the HKICPA. Our review of the 31 October 2015 Financial Information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion on the 31 October 2015 Financial Information. Based on our review, nothing has come to our attention that causes us to believe that the 31 October 2015 Financial Information is not prepared, in all material respects, in accordance with the accounting policies consistent with those used in the preparation of the Financial Information which conform with IFRSs.

## A. FINANCIAL INFORMATION

### CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

| | Notes | Year ended 31 December | | | Ten months ended 31 October | |
|---|---|---|---|---|---|---|
| | | 2013 | 2014 | 2015 | 2015 | 2016 |
| | | RMB'000 | RMB'000 | RMB'000 | RMB'000 (Unaudited) | RMB'000 |
| Revenue | 6, 7 | 409,798 | 628,983 | 911,896 | 745,613 | 720,967 |
| Cost of sales and services | | (268,194) | (456,820) | (699,435) | (572,358) | (542,084) |
| Gross profit | | 141,604 | 172,163 | 212,461 | 173,255 | 178,883 |
| Other income, expenses, gains and losses, net | 8 | 6,716 | 15,879 | 19,329 | 14,778 | 22,190 |
| Selling and distribution expenses | | (5,912) | (6,645) | (8,311) | (6,897) | (7,449) |
| Administrative expenses | | (30,339) | (32,913) | (38,706) | (30,745) | (33,339) |
| Listing expenses | | – | – | – | – | (1,640) |
| Finance costs | 9 | (6,236) | (11,765) | (14,421) | (10,486) | (17,197) |
| Profit before tax | 11 | 105,833 | 136,719 | 170,352 | 139,905 | 141,448 |
| Income tax expense | 10 | (17,880) | (21,187) | (25,934) | (21,361) | (21,288) |
| | | 87,953 | 115,532 | 144,418 | 118,544 | 120,160 |
| Profit and total comprehensive income for the year/period attributable to: | | | | | | |
| – Owners of the Company | | 73,894 | 100,386 | 130,412 | 105,008 | 106,719 |
| – Non-controlling interests | | 14,059 | 15,146 | 14,006 | 13,536 | 13,441 |
| | | 87,953 | 115,532 | 144,418 | 118,544 | 120,160 |
| Earnings per share (RMB) | 14 | | | | | |
| – Basic | | 0.19 | 0.25 | 0.22 | 0.18 | 0.17 |

## CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

| | Notes | At 31 December 2013 | At 31 December 2014 | At 31 December 2015 | At 31 October 2016 |
|---|---|---|---|---|---|
| | | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| NON-CURRENT ASSETS | | | | | |
| Property, plant and equipment | 15 | 51,934 | 35,471 | 39,740 | 37,208 |
| Investment properties | 16 | 10,529 | 3,485 | 14,183 | 13,433 |
| Intangible assets | 17 | 457,234 | 702,569 | 1,070,892 | 996,714 |
| Prepaid lease payments | 18 | 53,422 | 78,463 | 77,912 | 78,416 |
| Prepayments for prepaid lease payments | 24 | – | – | 4,000 | 4,000 |
| Receivables under service concession arrangements | 17 | 228,746 | 292,031 | 386,007 | 763,820 |
| Available-for-sale investments | 19 | 26,606 | 37,871 | 53,630 | 53,630 |
| Deferred income tax assets | 20 | 1,965 | 2,825 | 4,497 | 7,161 |
| | | 830,436 | 1,152,715 | 1,650,861 | 1,954,382 |
| CURRENT ASSETS | | | | | |
| Inventories | 21 | 28,104 | 19,124 | 17,465 | 17,880 |
| Receivables under service concession arrangements | 17 | 529 | 2,509 | 4,821 | 10,848 |
| Amounts due from customers for contract works | 22 | 3,637 | 8,046 | 7,696 | 8,290 |
| Trade receivables | 23 | 58,433 | 68,753 | 71,326 | 143,610 |
| Prepaid lease payments | 18 | 836 | 1,607 | 1,558 | 1,637 |
| Prepayments and other receivables | 24 | 14,230 | 10,411 | 16,192 | 28,004 |
| Bank balances and cash | 25 | 97,121 | 170,159 | 289,309 | 366,298 |
| | | 202,890 | 280,609 | 408,367 | 576,567 |
| CURRENT LIABILITIES | | | | | |
| Borrowings | 26 | 74,749 | 354,895 | 251,412 | 303,674 |
| Trade payables | 27 | 12,005 | 8,331 | 5,313 | 10,937 |
| Advances from customers and other payables | 28 | 230,768 | 161,066 | 218,702 | 310,081 |
| Provisions | 30 | 15,241 | 14,096 | 10,639 | 15,320 |
| Current income tax liabilities | | 35,937 | 34,238 | 37,633 | 19,941 |
| | | 368,700 | 572,626 | 523,699 | 659,953 |
| NET CURRENT LIABILITIES | | (165,810) | (292,017) | (115,332) | (83,386) |
| TOTAL ASSETS LESS CURRENT LIABILITIES | | 664,626 | 860,698 | 1,535,529 | 1,870,996 |

**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION — Continued**

| | Notes | At 31 December 2013 | At 31 December 2014 | At 31 December 2015 | At 31 October 2016 |
|---|---|---|---|---|---|
| | | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| CAPITAL AND RESERVES | | | | | |
| Paid-in capital/Share capital | 31 | 184,896 | 248,286 | 600,000 | 664,310 |
| Reserves | | 246,139 | 358,522 | 431,381 | 605,546 |
| Equity attributable to owners of the Company | | 431,035 | 606,808 | 1,031,381 | 1,269,856 |
| Non-controlling interests | | 43,888 | 49,177 | 63,876 | 80,781 |
| TOTAL EQUITY | | 474,923 | 655,985 | 1,095,257 | 1,350,637 |
| NON-CURRENT LIABILITIES | | | | | |
| Borrowings | 26 | 39,915 | 34,419 | 239,508 | 291,609 |
| Deferred revenue | 29 | 115,479 | 120,986 | 127,332 | 123,548 |
| Provisions | 30 | 29,329 | 43,351 | 62,943 | 93,347 |
| Deferred income tax liabilities | 20 | 4,980 | 5,957 | 10,489 | 11,855 |
| | | 189,703 | 204,713 | 440,272 | 520,359 |
| | | 664,626 | 860,698 | 1,535,529 | 1,870,996 |

## STATEMENTS OF FINANCIAL POSITION

| | Notes | At 31 December 2013 | At 31 December 2014 | At 31 December 2015 | At 31 October 2016 |
|---|---|---|---|---|---|
| | | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| NON-CURRENT ASSETS | | | | | |
| Property, plant and equipment | 15 | 31,394 | 15,359 | 21,269 | 18,786 |
| Investment properties | 16 | 7,769 | 742 | 694 | – |
| Intangible assets | 17 | 291,331 | 342,214 | 555,585 | 633,234 |
| Prepaid lease payments | 18 | 13,814 | 10,150 | 12,150 | 11,837 |
| Prepayment for prepaid lease payments | 24 | – | – | 4,000 | 4,000 |
| Available-for-sale investments | 19 | 29,756 | 37,871 | 53,630 | 53,630 |
| Investments in subsidiaries | 33 | 109,262 | 205,349 | 382,212 | 542,949 |
| Deferred income tax assets | 20 | – | 113 | 483 | 179 |
| | | 483,326 | 611,798 | 1,030,023 | 1,264,615 |
| CURRENT ASSETS | | | | | |
| Inventories | 21 | 9,184 | 7,440 | 6,930 | 7,791 |
| Amounts due from customers for contract works | 22 | 1,190 | 2,712 | 2,586 | 5,461 |
| Trade receivables | 23 | 7,954 | 10,965 | 14,526 | 22,238 |
| Prepaid lease payments | 18 | 38 | 168 | 168 | 260 |
| Prepayments and other receivables | 24 | 71,521 | 55,357 | 27,019 | 71,387 |
| Bank balances and cash | 25 | 29,991 | 103,563 | 101,724 | 225,025 |
| | | 119,878 | 180,205 | 152,953 | 332,162 |
| CURRENT LIABILITIES | | | | | |
| Borrowings | 26 | 1,250 | 97,994 | 131,412 | 221,174 |
| Trade payables | 27 | 26,624 | 20,109 | 3,736 | 13,331 |
| Advances from customers and other payables | 28 | 147,543 | 70,612 | 71,339 | 162,873 |
| Provisions | 30 | 2,609 | 1,080 | 10,012 | 13,375 |
| Current income tax liabilities | | 23,716 | 24,607 | 27,189 | 7,204 |
| | | 201,742 | 214,402 | 243,688 | 417,957 |
| NET CURRENT LIABILITIES | | (81,864) | (34,197) | (90,735) | (85,795) |
| TOTAL ASSETS LESS CURRENT LIABILITIES | | 401,462 | 577,601 | 939,288 | 1,178,820 |

**STATEMENTS OF FINANCIAL POSITION — Continued**

| | Notes | At 31 December 2013 | At 31 December 2014 | At 31 December 2015 | At 31 October 2016 |
|---|---|---|---|---|---|
| | | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| CAPITAL AND RESERVES | | | | | |
| Paid-in capital/Share capital | 31 | 184,896 | 248,286 | 600,000 | 664,310 |
| Reserves | 31 | 183,185 | 293,044 | 304,814 | 413,686 |
| TOTAL EQUITY | | 368,081 | 541,330 | 904,814 | 1,077,996 |
| NON-CURRENT LIABILITIES | | | | | |
| Borrowings | 26 | 7,914 | 6,920 | 5,508 | 70,109 |
| Deferred revenue | 29 | 10,578 | 10,260 | 13,669 | 13,581 |
| Provisions | 30 | 14,747 | 19,091 | 15,297 | 17,134 |
| Deferred income tax liabilities | 20 | 142 | – | – | – |
| | | 33,381 | 36,271 | 34,474 | 100,824 |
| | | 401,462 | 577,601 | 939,288 | 1,178,820 |

## CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

| | Attributable to owners of the Company | | | | | | |
|---|---|---|---|---|---|---|---|
| | Paid-in capital | Capital reserve | Statutory surplus reserve | Retained profits | Total | Non-controlling interests | Total equity |
| | RMB'000 | RMB'000 | RMB'000 (Note) | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| At 1 January 2013 | 184,896 | 59,031 | 10,754 | 194,546 | 449,227 | 42,792 | 492,019 |
| Profit and total comprehensive income for the year | – | – | – | 73,894 | 73,894 | 14,059 | 87,953 |
| Appropriation for the year | – | – | 4,179 | (4,179) | – | – | – |
| Transfer from retained profits | – | 1,000 | – | (1,000) | – | – | – |
| Dividend declared by subsidiaries | – | – | – | – | – | (12,963) | (12,963) |
| Dividend declared | – | – | – | (92,086) | (92,086) | – | (92,086) |
| At 31 December 2013 | 184,896 | 60,031 | 14,933 | 171,175 | 431,035 | 43,888 | 474,923 |
| Profit and total comprehensive income for the year | – | – | – | 100,386 | 100,386 | 15,146 | 115,532 |
| Appropriation for the year | – | – | 8,938 | (8,938) | – | – | – |
| Capital contribution by a shareholder *(Note 31)* | 63,890 | 146,110 | – | – | 210,000 | – | 210,000 |
| Capital contribution by a non-controlling shareholder of a subsidiary | – | – | – | – | – | 1,980 | 1,980 |
| Acquisitions of additional equity interests from non-controlling interests *(Note 33)* | – | – | – | – | – | (268) | (268) |
| Reduction of paid-in capital by division *(Note 31)* | (500) | – | – | – | (500) | – | (500) |
| Deemed distribution *(Note 32)* | – | (50,781) | – | – | (50,781) | (1,059) | (51,840) |
| Dividend declared by subsidiaries | – | – | – | – | – | (10,510) | (10,510) |
| Dividend declared | – | – | – | (83,332) | (83,332) | – | (83,332) |
| At 31 December 2014 | 248,286 | 155,360 | 23,871 | 179,291 | 606,808 | 49,177 | 655,985 |

## CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY — Continued

| | Attributable to owners of the Company | | | | | | |
|---|---|---|---|---|---|---|---|
| | Paid-in capital/ share capital | Capital reserve | Statutory surplus reserve | Retained profits | Total | Non-controlling interests | Total equity |
| | RMB'000 | RMB'000 | RMB'000 (Note) | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| As at 31 December 2014 | 248,286 | 155,360 | 23,871 | 179,291 | 606,808 | 49,177 | 655,985 |
| Profit and total comprehensive income for the year | – | – | – | 130,412 | 130,412 | 14,006 | 144,418 |
| Appropriation for the year | – | – | 6,088 | (6,088) | – | – | – |
| Capital contribution by shareholders *(Note 31)* | 30,424 | 267,600 | – | – | 298,024 | – | 298,024 |
| Capital contribution by a non-controlling shareholder of a subsidiary | – | – | – | – | – | 3,600 | 3,600 |
| Acquisitions of additional equity interests from non-controlling interests *(Note 33)* | – | – | – | – | – | (463) | (463) |
| Dividend declared by subsidiaries | – | – | – | – | – | (2,444) | (2,444) |
| Dividend declared | – | – | – | (12,176) | (12,176) | – | (12,176) |
| Event-driven revaluation *(Note 16)* | – | 8,313 | – | – | 8,313 | – | 8,313 |
| Conversion into a joint stock company *(Note 31)* | 321,290 | (255,866) | (28,002) | (37,422) | – | – | – |
| At 31 December 2015 | 600,000 | 175,407 | 1,957 | 254,017 | 1,031,381 | 63,876 | 1,095,257 |
| Profit and total comprehensive income for the period | – | – | – | 106,719 | 106,719 | 13,441 | 120,160 |
| Capital contribution by shareholders *(Note 31)* | 64,310 | 69,270 | – | – | 133,580 | – | 133,580 |
| Capital contribution by a non-controlling shareholder of a subsidiary | – | – | – | – | – | 1,640 | 1,640 |
| Acquisitions of additional equity interests from non-controlling interests *(Note 33)* | – | (1,824) | – | – | (1,824) | 1,824 | – |
| At 31 October 2016 | 664,310 | 242,853 | 1,957 | 360,736 | 1,269,856 | 80,781 | 1,350,637 |

## CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY — Continued

| | Attributable to owners of the Company | | | | | | |
|---|---|---|---|---|---|---|---|
| | Paid-in capital | Capital reserve | Statutory surplus reserve | Retained profits | Total | Non-controlling interests | Total equity |
| | RMB'000 | RMB'000 | RMB'000 (Note) | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| **(Unaudited)** | | | | | | | |
| As at 1 January 2015 | 248,286 | 155,360 | 23,871 | 179,291 | 606,808 | 49,177 | 655,985 |
| Profit and total comprehensive income for the period | – | – | – | 105,008 | 105,008 | 13,536 | 118,544 |
| Capital contribution by shareholders *(Note 31)* | 30,424 | 267,600 | – | – | 298,024 | – | 298,024 |
| Capital contribution by a non-controlling shareholder of a subsidiary | – | – | – | – | – | 3,600 | 3,600 |
| Dividend declared by subsidiaries | – | – | – | – | – | (2,148) | (2,148) |
| Dividend declared | – | – | – | (12,176) | (12,176) | – | (12,176) |
| At 31 October 2015 | 278,710 | 422,960 | 23,871 | 272,123 | 997,664 | 64,165 | 1,061,829 |

*Note:* Pursuant to the relevant laws in the People's Republic of China (the "PRC"), each of the entities established in the PRC is required to transfer 10% of its profit after tax as per statutory financial statements (as determined by the management of the subsidiary) to the reserve fund (including the general reserve fund and enterprise development fund where appropriate). The general reserve fund is discretionary when the fund balance reaches 50% of the registered capital of the respective company and can be used to make up for previous years' losses or, expand the existing operations or can be converted into additional capital of the entity.

## CONSOLIDATED STATEMENTS OF CASH FLOWS

| | Year ended 31 December | | | Ten months ended 31 October | |
|---|---|---|---|---|---|
| | 2013 | 2014 | 2015 | 2015 | 2016 |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 (Unaudited) | RMB'000 |
| **OPERATING ACTIVITIES** | | | | | |
| Profit before tax | 105,833 | 136,719 | 170,352 | 139,905 | 141,448 |
| Adjustments for: | | | | | |
| Bank interest income | (989) | (993) | (2,000) | (1,571) | (1,277) |
| Listing expenses | – | – | – | – | 1,640 |
| Government grants recognised | (12,248) | (8,739) | (7,130) | (5,486) | (5,399) |
| Profit from construction and upgrade services of infrastructure | – | (465) | (673) | (545) | (595) |
| Depreciation and amortisation | 18,030 | 23,617 | 29,385 | 24,096 | 29,557 |
| Losses (gains) on disposal of property, plant and equipment, investment properties and prepaid lease payments, net | 410 | 314 | (802) | 2 | (2,775) |
| Loss on derecognition of property, plant and equipment upon concession arrangements established, net | 12,096 | – | – | – | – |
| Impairment losses (reversal of impairment losses) on trade and other receivables | 591 | (173) | 715 | 98 | – |
| Finance costs | 6,236 | 11,765 | 14,421 | 10,486 | 17,197 |
| Operating cash flows before movements in working capital | 129,959 | 162,045 | 204,268 | 166,985 | 179,796 |
| Decrease (increase) in inventories | 8,492 | 8,980 | 1,659 | (3,138) | (415) |
| Decrease (increase) in trade and other receivables and prepayments | 19,342 | (6,414) | (6,869) | (3,991) | (68,525) |
| Decrease (increase) in amounts due from customers for contract works | 1,834 | (4,409) | 350 | (71) | (594) |
| (Increase) decrease in receivables under service concession arrangements | (1,367) | 294 | 2,523 | 2,081 | 5,762 |
| (Decrease) increase in trade and other payables and advances from customers | (23,066) | (3,746) | 4,652 | 18,998 | 8,121 |
| Increase in provisions | 14,913 | 10,136 | 13,320 | 10,858 | 32,080 |
| Cash generated from operations | 150,107 | 166,886 | 219,903 | 191,722 | 156,225 |
| Income tax paid | (12,405) | (22,769) | (22,450) | (19,091) | (40,278) |
| **NET CASH FROM OPERATING ACTIVITIES** | 137,702 | 144,117 | 197,453 | 172,631 | 115,947 |

**CONSOLIDATED STATEMENTS OF CASH FLOWS — Continued**

| | Year ended 31 December | | | Ten months ended 31 October | |
|---|---|---|---|---|---|
| | 2013 | 2014 | 2015 | 2015 | 2016 |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 (Unaudited) | RMB'000 |
| **INVESTING ACTIVITIES** | | | | | |
| Payments for purchases of property, plant and equipment, investment properties, prepaid lease payments and construction and upgrade services of infrastructure | (126,313) | (344,392) | (433,408) | (294,681) | (253,939) |
| Payments for acquisitions of available-for-sale investments | (10,506) | (26,265) | (15,759) | (15,759) | – |
| Government grants received | 21,283 | 14,246 | 13,476 | 13,109 | 1,615 |
| Purchase of other financial assets | – | – | – | – | (35,000) |
| Redemption of other financial assets | – | – | – | – | 35,000 |
| Proceeds from disposal of property, plant and equipment, investment properties and prepaid lease payments | 4,307 | 2,578 | 3,323 | – | 4,214 |
| Bank interest received | 989 | 993 | 2,000 | 1,571 | 1,277 |
| **NET CASH USED IN INVESTING ACTIVITIES** | (110,240) | (352,840) | (430,368) | (295,760) | (246,833) |
| **FINANCING ACTIVITIES** | | | | | |
| Capital contribution by shareholders | – | 210,000 | 298,024 | 298,024 | 133,580 |
| Reduction of paid-in capital by division | – | (500) | – | – | – |
| Capital contribution by a non-controlling shareholder of a subsidiary | – | 1,980 | 3,600 | 3,600 | 1,640 |
| Proceeds from new borrowings | 483,350 | 479,433 | 504,451 | 70,000 | 334,000 |
| Repayments of borrowings | (534,088) | (204,783) | (402,845) | (162,845) | (229,637) |
| Payments of interest expense | (3,290) | (20,236) | (24,646) | (20,048) | (23,218) |
| Payment of listing expenses | – | – | (2,200) | – | (8,164) |
| Dividends paid | (4,999) | (170,419) | (11,861) | (11,861) | (315) |
| Dividends paid to non-controlling shareholders of subsidiaries | (1,851) | (12,060) | (11,995) | (11,699) | (11) |
| Acquisitions of additional equity interests from non-controlling interests | – | (268) | (463) | – | – |
| Deemed distribution | – | (1,386) | – | – | – |
| **NET CASH (USED IN) FROM FINANCING ACTIVITIES** | (60,878) | 281,761 | 352,065 | 165,171 | 207,875 |

**CONSOLIDATED STATEMENTS OF CASH FLOWS — Continued**

| | Year ended 31 December | | | Ten months ended 31 October | |
|---|---|---|---|---|---|
| | 2013 | 2014 | 2015 | 2015 | 2016 |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 (Unaudited) | RMB'000 |
| **NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS** | (33,416) | 73,038 | 119,150 | 42,042 | 76,989 |
| **CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR/ PERIOD** | 130,537 | 97,121 | 170,159 | 170,159 | 289,309 |
| **CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR/ PERIOD** | | | | | |
| Represented by bank balances and cash | 97,121 | 170,159 | 289,309 | 212,201 | 366,298 |

## NOTES TO THE CONSOLIDATED FINANCIAL INFORMATION

### 1. GENERAL INFORMATION

The Company was established in the PRC on 31 July 2002 as a limited liability company under the Company Law of the PRC. On 25 December 2015, the Company was converted into a joint stock limited liability company.

The principal activities of the Group are mainly engaged in the provision of tap water supply and related installation and maintenance service, wastewater treatment service and construction service.

The address of the registered office and the principal place of business of the Company is No. 16 Baizi Road, Jiangyang District, Luzhou, Sichuan Province, the PRC. It was registered as a non-Hong Kong company under Part 16 of the Hong Kong Companies Ordinance (Cap. 622) on 12 September 2016.

In the opinion of the directors of the Company (the "Directors"), the Company's immediate and ultimate holding company is 瀘州市興瀘投資集團有限公司 (Luzhou Xinglu Investment Group Co., Ltd.), which is established in the PRC as a limited liability company under the Company Law of the PRC.

The Financial Information is presented in Renminbi ("RMB"), which is also the functional currency of the Company and its subsidiaries.

### 2. BASIS OF PREPARATION

The Group had net current liabilities of RMB165,810,000, RMB292,017,000, RMB115,332,000 and RMB83,386,000 as at 31 December 2013, 2014 and 2015 and 31 October 2016, respectively. In the opinion of the Directors, the Financial Information has been prepared on a going concern basis because the Group will be able to meet in full its financial obligations as and when they fall due for the foreseeable future, taking into account of the expected cash flows from operations, undrawn banking facilities currently available to the Group (see note 26(h)) and new bank borrowings obtained subsequent to 31 October 2016 (see Section C).

### 3. APPLICATION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS

For the purpose of preparing and presenting the Financial Information, the Group has consistently applied International Accounting Standards ("IASs"), IFRSs, amendments and interpretations issued by the IASB which are effective for the accounting period beginning on 1 January 2016 throughout the Track Record Period.

As the date of this report, the Group has not early applied the following new and revised IFRSs that have been issued but are not yet effective:

**New and revised IFRS issued but not yet effective**

| | |
|---|---|
| IFRS 9 | Financial Instruments[1] |
| IFRS15 | Revenue from Contracts with Customers[1] |
| IFRS16 | Leases[2] |
| IFRIC 22 | Foreign Currency Transactions and Advance Consideration[1] |
| Amendments to IFRS 2 | Classification and Measurement of Share-based Payment Transactions[1] |
| Amendments to IFRS 4 | Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts[1] |
| Amendments to IFRS 15 | Clarifications to IFRS 15 Revenue from Contracts with Customers[1] |
| Amendments to IFRS 10 and IAS 28 | Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[3] |
| Amendments to IAS 7 | Disclosure Initiative[4] |
| Amendments to IAS 12 | Recognition of Deferred Tax Assets for Unrealised Losses[4] |
| Amendments to IAS 40 | Transfers of Investment Properties[1] |
| Amendments to IFRSs | Annual improvements to IFRS Standards 2014–2016 Cycle[5] |

[1] Effective for annual periods beginning on or after 1 January 2018
[2] Effective for annual periods beginning on or after 1 January 2019
[3] Effective for annual periods beginning on or after a date to be determined
[4] Effective for annual periods beginning on or after 1 January 2017
[5] Effective for annual periods beginning on or after 1 January 2017 or 1 January 2018, as appropriate

Except as disclosed below, the application of the new and revised IFRSs issued but not yet effective has had no material impact on the Group's financial performance and positions and/or the disclosures when they became effective.

**IFRS 9 Financial Instruments**

IFRS 9 issued in 2009 introduced new requirements for the classification and measurement of financial assets. IFRS 9 was subsequently amended in 2010 to include requirements for the classification and measurement of financial liabilities and for derecognition, and in 2013 to include the new requirements for general hedge accounting. Another revised version of IFRS 9 was issued in 2014 mainly to include a) impairment requirements for financial assets and b) limited amendments to the classification and measurement requirements by introducing a "fair value through other comprehensive income" ("FVTOCI") measurement category for certain simple debt instruments.

Key requirements of IFRS 9 are described below:

- All recognised financial assets that are within the scope of IAS 39 *Financial Instruments: Recognition and Measurement* are subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are generally measured at FVTOCI. All other debt investments and equity investments are measured at their fair value at the end of subsequent accounting periods. In addition, under IFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.

- With regard to the measurement of financial liabilities designated as at fair value through profit or loss, IFRS 9 requires that the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value of financial liabilities attributable to changes in the financial liabilities' credit risk are not subsequently reclassified to profit or loss. Under IAS 39, the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss was presented in profit or loss.

- In relation to the impairment of financial assets, IFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under IAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.

- the new general hedge accounting requirements retain the three types of hedge accounting mechanisms currently available in IAS39. Under IFRS 9, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the retrospective quantitative effectiveness test has been removed. Enhanced disclosure requirements about an entity's risk management activities have also been introduced.

The Directors anticipate that application of IFRS 9 may have a material impact on the classification and measurement of the Group's available-for-sale investments stated at cost less impairment which will be measured as fair value through profit or loss or be designated as fair value through other comprehensive income (subject to fulfillment of the designation criteria). In addition, there will be the potential early recognition of credit losses based on the expected loss model in relation to the Group's financial assets measured at amortised cost in the application of IFRS 9. Save as the aforesaid, the Directors anticipate that the adoption of IFRS 9 in the future may not have other significant impact on amounts reported in respect of the Group's financial assets and financial liabilities based on an analysis of the Group's financial instruments as at 31 October 2016.

**IFRS 15 Revenue from Contracts with Customers**

IFRS 15 was issued in 2014 which establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. IFRS 15 will supersede the current revenue recognition guidance including IAS 18 *Revenue*, IAS 11 *Construction Contracts* and the related interpretations when it becomes effective.

The core principle of IFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the standard introduces a 5-step approach to revenue recognition:

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

Under IFRS 15, an entity recognises revenue when (or as) a performance obligation is satisfied, i.e. when "control" of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in IFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by IFRS 15.

Based on the assessment so far, the Directors do not expect the adoption of IFRS 15 would result in significant impact on its revenue recognition, however, may result in additional disclosures.

**4. SIGNIFICANT ACCOUNTING POLICIES**

The Financial Information has been prepared in accordance with the following accounting policies which conform with IFRSs. In addition, the Financial Information includes applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange and by the Hong Kong Companies Ordinance.

The Financial Information has been prepared on the historical cost basis except for certain financial instruments that are measured at fair values, as explained in the accounting policies set out below. Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in the Financial Information is determined on such a basis, except for share-based payment transactions that are within the scope of IFRS 2 *Share-Based Payment*, leasing transactions that are within the scope of IAS 17 *Leases*, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in IAS 2 *Inventories* or value in use in IAS 36 *Impairments of Assets*.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

The principal accounting policies are set out below.

**Basis of consolidation**

The Financial Information incorporates the financial statements of the Company and its subsidiaries. Control is achieved when the Company:

- has the power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

When the Group has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Group considers all relevant facts and circumstances in assessing whether or not the Group's voting rights in an investee are sufficient to give it power, including:

- the size of the Group's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- potential voting rights held by the Group, other vote holders or other parties;
- rights arising from other contractual arrangements; and
- any additional facts and circumstances that indicate that the Group has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

Consolidation of a subsidiary begins when the Company obtains control over the subsidiary and ceases when the Company loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year/period are included in the consolidated statements of profit or loss and other comprehensive income from the date the Company gains control until the date when the Company ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

**Investments in subsidiaries**

The investments in subsidiaries are stated at cost less accumulated impairment loss, if any.

**Changes in the Group's ownership interests in existing subsidiaries**

Changes in the Group's ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity ("other reserve") and attributed to owners of the Company.

When the Group loses control of a subsidiary, a gain or loss is recognised in profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. All amounts previously recognised in other comprehensive income in relation to that subsidiary are accounted for as if the Group had directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable IFRSs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under IAS 39, when applicable, the cost on initial recognition of an investment in an associate or a joint venture.

**Foreign currencies**

In preparing the financial statements of each individual group entity, transactions in currencies other than the entity's functional currency (foreign currencies) are recognised at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items and on the retranslation of monetary items are recognised in profit or loss in the period in which they arise.

**Property, plant and equipment**

Property, plant and equipment held for use in the production or supply of goods or services, or for administrative purposes, are stated in the consolidated statements of financial position at cost, less subsequent accumulated depreciation and subsequent accumulated impairment losses, if any.

Depreciation is recognised so as to write off the cost of assets less their residual values over their useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

**Investment properties**

Investment properties are properties held to earn rentals and/or for capital appreciation.

Investment properties are initially measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are stated at cost less subsequent accumulated depreciation and any accumulated impairment losses. Depreciation is recognised so as to write off the cost of investment properties over their estimated useful lives and after taking into account their estimated residual value, using the straight-line method.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from the disposal. Any gain or loss arising on derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the period in which the property is derecognised.

**Intangible assets**

When the Group has a right to charge for usage of concession infrastructure (as a consideration for providing construction service in a service concession arrangement), it recognises an intangible asset at fair value upon initial recognition. The Group's intangible assets represent operating concessions and are stated at cost less accumulated amortisation and impairment, if any. Operating concessions are amortised over the tenure of the service concession arrangements, using straight-line method. Further details of operating concessions are set out in "Service concession arrangements" below.

**Impairment of tangible and intangible assets**

At the end of each reporting period, the Group reviews the carrying amounts of its intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Intangible assets not yet available for use are tested for impairment at least annually and whether there is an indication that they may be impaired.

Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or the cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

When an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

**Service concession arrangements**

The Group has entered into a number of service concession arrangements with certain governmental authorities or their designees (the "Grantors").

Under these service concession arrangements,

- the Grantors control or regulate the services the Group must provide with the infrastructure, to whom it must provide them, and at what price; and

- the Grantors control, through ownership, beneficial entitlement or otherwise, any significant residual interest in the infrastructure at the end of the term of the arrangement, or the infrastructure is used for its entire useful life under the arrangements, or both the Group's practical ability to sell or pledge the infrastructure is restricted and continuing right of use of the infrastructure is given to the Grantors throughout the period of the arrangements.

The Group's infrastructure includes leasehold land, buildings, plant and machinery that are acquired from the Grantors and/or are derecognised by the Group (when the Directors consider that the significant risks and rewards of these assets haven been passed to the Grantors) upon the service concession arrangements established.

***Consideration given to the Grantor***

A financial asset (receivable under a service concession arrangement) is recognised to the extent that the Group has an unconditional right to receive cash or another financial asset from the Grantors for the consideration paid and payable by the Group to the Grantors. The Group has unconditional right to receive cash if the Grantors contractually guarantee 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 assets (receivables under service concession arrangements) are accounted for in accordance with the policy set out for loans and receivables under "Financial instruments" 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 use. 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 consideration 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.

***Operating service***

Revenue relating to operating service are accounted for in accordance with the policy for "Revenue" below. Costs for operating services are expensed in the period in which they are incurred.

***Contractual obligations to restore the infrastructure to a specified level of serviceability***

The Group has contractual obligations which it must fulfil as a condition of its licences to maintain the wastewater treatment and water supply plants to a specified level of serviceability. These contractual obligations to maintain the wastewater treatment and water supply plants, except for upgrade element, are recognised and measured in accordance with the policy set out for "Provisions" below.

***Construction and upgrade services***

Revenue and costs relating to construction or upgrade services of the existing or new infrastructure are recognised in accordance with the policy for "Construction contracts" below while the costs incurred to date plus recognised profits less recognised losses, if any, (representing the revenue) are included in intangible assets.

**Taxation**

Income tax expense represents the sum of the tax currently payable and deferred tax.

***Current tax***

The tax currently payable is based on taxable profit for the year/period. Taxable profit differs from "profit before tax" as reported in the consolidated statements of profit or loss and other comprehensive income because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Group's current tax is calculated using tax rates that have been enacted or substantively enacted by the end of each reporting period.

***Deferred tax***

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the Financial Information and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from the initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit. In addition, deferred tax liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of each reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of each reporting period, to recover or settle the carrying amount of its assets and liabilities.

***Current and deferred tax for the year***

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

**Construction contracts**

When the outcome of a construction contract can be estimated reliably, revenue and costs are recognised by reference to the stage of completion of the contract activity at the end of each reporting period, measured based on the proportion of contract costs incurred for work performed to date relative to the estimated total contract costs, except where this would not be representative of the stage of completion. Variations in contract work, claims and incentive payments are included to the extent that the amount can be measured reliably and its receipt is considered probable.

When the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised to the extent of contract costs incurred that it is probable will be recoverable. Contract costs are recognised as expenses in the period in which they are incurred.

When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

When contract costs incurred to date plus recognised profits less recognised losses exceed progress billings, the surplus is shown as amounts due from customers for contract work. For contracts where progress billings exceed contract costs incurred to date plus recognised profits less recognised losses, the surplus is shown as the amounts due to customers for contract work. Amounts received before the related work is performed are included in the consolidated statements of financial position, as a liability, as advances received. Amounts billed for work performed but not yet paid by the customer are included in the consolidated statements of financial position under trade receivables.

**Leasing**

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

***The Group as lessor***

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease.

***The Group as lessee***

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

**Leasehold land for own use**

When a lease includes both land and building elements, the Group assesses the classification of each element as a finance or an operating lease separately based on the assessment as to whether substantially all the risks and rewards incidental to ownership of each element have been transferred to the Group, unless it is clear that both elements are operating leases in which case the entire lease is classified as an operating lease. Specifically, the minimum lease payments (including any lump-sum upfront payments) are allocated between the land and the building elements in proportion to the relative fair values of the leasehold interests in the land element and building element of the lease at the inception of the lease.

To the extent the allocation of the lease payments can be made reliably, interest in leasehold land that is accounted for as an operating lease is presented as "prepaid lease payments" in the consolidated statements of financial position and is amortised over the lease term on a straight-line basis. When the lease payments cannot be allocated reliably between the land and building elements, the entire lease is generally classified as a finance lease and accounted for as property, plant and equipment.

**Inventories**

Inventories are stated at the lower of cost and net realisable value. Costs of inventories are determined on weighted average basis. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

**Government grants**

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate. Specifically, government grants whose primary condition is that the Group should purchase, construct or otherwise acquire non-current assets are recognised as deferred revenue in the consolidated statements of financial position and transferred to profit or loss on a systematic and rational basis over the useful lives of the related assets.

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

**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.

**Provisions**

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of each reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (when the effect of the time value of money is material).

**Financial instruments**

Financial assets and financial liabilities are recognised when a group entity becomes a party to the contractual provisions of the instruments.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition.

Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

***Financial assets***

Financial assets are classified into the following specified categories: "financial assets at fair value through profit or loss" ("FVTPL"), "available-for-sale ("AFS") investments" and "loans and receivables". The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

*Effective interest method*

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Income is recognised on an effective interest basis for debt instruments other than those financial assets classified as at FVTPL.

*Financial assets at FVTPL*

Financial assets are classified as at FVTPL when the financial asset is held for trading.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling it in the near term; or
- on initial recognition it is part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

Financial assets at FVTPL are measured at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss includes any dividend or interest earned on the financial assets and is included in the "other income, expenses, gains and losses, net" line item.

*AFS investments*

AFS equity securities held by the Group that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are measured at cost less any identified impairment losses at the end of each reporting period (see the accounting policy in respect of impairment loss on financial assets below).

*Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables (including receivables under service concession arrangements, trade and other receivables, amounts due from the immediate holding company of the Company and subsidiaries of the Company, bank balances and cash) are measured at amortised cost using the effective interest method, less any impairment.

Interest income is recognised by applying the effective interest rate, except for short-term receivables where the recognition of interest would be immaterial.

*Impairment of financial assets*

Financial assets of the Group other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

For AFS equity investments, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment.

For financial assets, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as a default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

Objective evidence of impairment for a receivable could include the Group's past experience of collecting payments, an increase in the number of delayed payments past the average credit period, as well as observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets that are carried at amortised cost, the amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate. For financial assets carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade and other receivables, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When a trade or other receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against to profit or loss.

When an AFS financial asset is considered to be impaired, cumulative gains or losses previously recognised in other comprehensive income are reclassified to profit or loss in the period.

For financial assets measured at amortised cost, 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, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the financial asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

In respect of AFS equity investments, impairment losses previously recognised in profit or loss are not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognised in other comprehensive income and accumulated under the heading of investment revaluation reserve.

***Financial liabilities and equity instruments***

*Classification as debt or equity*

Debt and equity instruments issued by a group entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

***Equity instruments***

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by a group entity are recognised at the proceeds received, net of direct issue costs.

*Financial liabilities*

Financial liabilities of the Group (including borrowings, amounts due to immediate holding company of the Company, shareholders of the Company, fellow subsidiaries, non-controlling shareholders of subsidiaries and subsidiaries of the Company, trade and other payables) are subsequently measured at amortised cost using the effective interest method.

*Effective interest method*

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or, (where appropriate), a shorter period, to the net carrying amount on initial recognition.

Interest expense is recognised on an effective interest basis.

***Derecognition***

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity.

If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in equity is recognised in profit or loss.

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

**Revenue recognition**

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customer returns, rebates and other similar allowances.

***Sale of goods***

Revenue from the sale of goods is recognised when the goods are delivered and titles have passed, at which time all the following conditions are satisfied:

- the Group has transferred to the buyer the significant risks and rewards of ownership of the goods;
- the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the Group; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

***Sale of water***

Sale of water is recognised when a Group has transmitted to the customers and the customers have accepted the water and collectability of the related receivables is reasonably assured.

***Revenue from construction contracts and construction or upgrade services of the existing or new infrastructure***

Revenue from installation service and construction or upgrade services of the existing or new infrastructure is recognised on the percentage-of-completion method .

***Sale of service***

Revenue from wastewater treatment operation, maintenance service and other services is recognised when service is rendered.

***Dividend and interest income***

Dividend income from investments is recognised when the Group's right to receive payment has been established (provided that it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably).

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

***Rental income***

The Group's policy for recognition of revenue from operating leases is described in the accounting policy in "Leasing" above.

**Borrowing costs**

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.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

## 5. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in note 4, the Directors are required to make estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

### Critical judgements in applying accounting policies

The following are the critical judgements, apart from those involving estimations (see below), that the Directors have made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in the Financial Information.

***(a) Control over Jiangnan Water and Nanjiao Water***

The financial statements of Jiangnan Water and Nanjiao Water have been consolidated in the Financial Information during the Track Record Period although the Company only has less than 50% of equity holding therein. In the opinion of the Directors, the Company holds majority voting right in their shareholders' meetings according to agreements with an individual (who has 9.89% and 14.34% of equity interests in Jiangnan Water and Nanjiao Water, respectively, for the period from 1 January 2013 to 11 December 2015 and 1.51% and 6.13% of equity interests in Jiangnan Water and Nanjiao Water, respectively, for the period from 12 December 2015 to 2 February 2016) who agreed to vote in the shareholders' meetings of these subsidiaries in accordance with the Company. Besides, on 3 February 2016, the Company also entered into agreements with a PRC limited liability partnership (which has 44.19% and 43.83% of equity interests in Jiangnan Water and Nanjiao Water, respectively, since then and the aforesaid individual transferred his certain equity interests in Jiangnan Water and Nanjiao Water to it on 12 December 2015) which agreed to vote in the shareholders' meetings of these subsidiaries in accordance with the Company.

***(b) Accounting for the Group's service concession arrangements under IFRIC Interpretation 12 Service Concession Arrangements***

Note 17 describes that the Group's service concession arrangements are accounted for as intangible assets and/or financial assets (receivables under service concession arrangements) in accordance with IFRIC Interpretation 12 *Service Concession Arrangements* because, in the opinion of the Directors, the Group's service concession arrangements contain the following:

- the grantors control or regulate the tap water supply and wastewater treatment services the Group must provide with the infrastructure, to whom the Group must provide such services, and at prices regulated by the grantors;
- the entire life of the infrastructure are used in the Group's service concession arrangements for providing tap water supply and wastewater treatment service; and
- the grantors restrict the Group's practical ability to sell or pledge the infrastructure that give the grantors continuing right of use throughout the period of the arrangement.

### Key sources of estimation uncertainty

The followings are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of each reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities for the next twelve months.

***(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. Impairment losses 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 receivables under service concession arrangements and the impairment charge in the period in which such estimate has been changed.

***(b) Provisions for maintenance of infrastructure under service concession arrangements***

The Group has contractual obligations that it must fulfil as a condition of its licence to maintain the infrastructure to a specified level of serviceability during the service concession arrangements. These contractual obligations to maintain infrastructure, except for any upgrade element, shall be recognised and measured in accordance with IAS 37 *Provisions, contingent liabilities and contingent assets* at the best estimate of the expenditure that would be required to settle the present obligation at the end of each reporting period in the consolidated statements of financial position. Should the payments and timing to settle the expenditure differ from the estimates, the provisions recognised in the consolidated statements of financial position at the end of each reporting period and the amount to be charged to the profit or loss will be changed.

***(c) Impairment test on intangible assets recognised under service concession arrangements that have yet to be in operation***

Included in the intangible assets of the Group as at 31 December 2013, 2014 and 2015 and 31 October 2016 are intangible assets recognised under service concession arrangements of RMB75.2 million, RMB260.9 million, RMB605.6 million and RMB387.1 million, respectively, that have yet to be in operation and which have been allocated to individual cash generating units ("CGUs") in tap water supply and wastewater treatment segments. Determining whether such intangible assets are impaired requires an estimation of the recoverable amount of the CGUs to which the intangible assets have been allocated, which is the higher of the value in use or fair value less costs of disposal. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the CGUs and suitable discount rates in order to calculate the present value. Where the actual future cash flows are less than expected, or change in facts, circumstances and the existing government policies, including preferential tax treatment, applicable to the relevant operation which results in downward revision of future cash, a material impairment loss may arise. At the end of each reporting period, no impairment loss was considered to be recognised. Details of the recoverable amount calculation are disclosed in note 17.

## 6. REVENUE

An analysis of the Group's revenue for each of the Track Record Period is as follows:

| | Year ended 31 December | | | Ten months ended 31 October | |
|---|---|---|---|---|---|
| | **2013** | **2014** | **2015** | **2015** | **2016** |
| | **RMB'000** | **RMB'000** | **RMB'000** | **RMB'000 (Unaudited)** | **RMB'000** |
| Tap water supply | | | | | |
| – Tap water | 132,299 | 148,185 | 163,348 | 134,479 | 146,105 |
| – Installation and maintenance services | 85,473 | 108,757 | 131,760 | 106,651 | 113,849 |
| – Construction and upgrade services of tap water supply infrastructure | 92,315 | 96,009 | 236,448 | 190,365 | 184,347 |
| | 310,087 | 352,951 | 531,556 | 431,495 | 444,301 |
| Wastewater treatment | | | | | |
| – Operating service | 77,647 | 93,565 | 109,002 | 90,186 | 101,892 |
| – Interest income on receivables under service concession arrangements | 13,451 | 15,747 | 18,959 | 15,546 | 21,517 |
| – Construction and upgrade services of wastewater treatment infrastructure | 8,613 | 166,720 | 252,379 | 208,386 | 153,257 |
| | 99,711 | 276,032 | 380,340 | 314,118 | 276,666 |
| | 409,798 | 628,983 | 911,896 | 745,613 | 720,967 |

## 7. SEGMENT INFORMATION

Information reported to Chairman of the Company, being the chief operating decision maker ("CODM"), during the Track Record Period, for the purposes of resource allocation and assessment of segment performance focuses on types of services provided. Specifically, the Group's reportable segments under IFRS 8 *Operating Segments* are as follows:

- Tap water supply – provision of tap water supply and related construction, installation and maintenance services

- Wastewater treatment – provision of wastewater treatment service and related construction service

The tap water supply segment includes the Company and its subsidiaries mainly providing tap water supply and related construction, installation and maintenance services in the PRC, each of which is considered as a separate operating segment by the CODM. For segment reporting, these individual operating segments have been aggregated into a single reportable segment, "Tap water supply segment", because, in the opinion of the Directors, they have similar economic characteristics and provide tap water supply and related construction, installation and maintenance services in the PRC under similar production processes to similar classes of customers using similar distribution method in the same regulatory environment.

For the three years ended 31 December 2013, 2014 and 2015, financial statements of the Company and its subsidiaries prepared in accordance with the relevant accounting principles and financial regulations applicable to the enterprises established in the PRC were reported to CODM. In the ten months ended 31 October 2016, IFRS financial information was reported to CODM and the segment information for the three years ended 31 December 2013, 2014 and 2015 has been re-presented to conform to the segment information for the ten months ended 31 October 2016.

**Segment revenue and results**

The following is an analysis of the Group's revenue and results by operating and reportable segment:

| | Year ended 31 December | | | Ten months ended 31 October | |
|---|---|---|---|---|---|
| | 2013 | 2014 | 2015 | 2015 | 2016 |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 (Unaudited) | RMB'000 |
| **Segment revenue** | | | | | |
| Tap water supply | | | | | |
| – From external customers | | | | | |
| – Tap water | 132,299 | 148,185 | 163,348 | 134,479 | 146,105 |
| – Installation and maintenance services | 85,473 | 108,757 | 131,760 | 106,651 | 113,849 |
| – Construction and upgrade services of tap water supply infrastructure | 92,315 | 96,009 | 236,448 | 190,365 | 184,347 |
| – Inter-segment sales | | | | | |
| – Tap water | 778 | 708 | 658 | 445 | 402 |
| Wastewater treatment | | | | | |
| – From external customers | | | | | |
| – Operating service | 77,647 | 93,565 | 109,002 | 90,186 | 101,892 |
| – Interest income on receivables under service concession arrangements | 13,451 | 15,747 | 18,959 | 15,546 | 21,517 |
| – Construction and upgrade services of wastewater treatment infrastructure | 8,613 | 166,720 | 252,379 | 208,386 | 153,257 |
| Elimination* | (778) | (708) | (658) | (445) | (402) |
| Revenue | 409,798 | 628,983 | 911,896 | 745,613 | 720,967 |
| **Segment results** | | | | | |
| – Tap water supply | 62,469 | 74,659 | 93,634 | 75,060 | 67,123 |
| – Wastewater treatment | 25,484 | 40,873 | 50,784 | 43,484 | 54,677 |
| – Unallocated expenses | – | – | – | – | (1,640) |
| Profit after tax | 87,953 | 115,532 | 144,418 | 118,544 | 120,160 |

* Inter-segment sales during the Track Record Period were conducted at terms mutually agreed among the companies comprising the Group.

The accounting policies of the operating segments are the same as the Group's accounting policies described in note 4. Segment profit represents the profit earned by each segment without allocation of the listing expenses. This is the measure reported to the CODM for the purposes of resource allocation and assessment of segment performance.

**Segment assets and liabilities**

The following is an analysis of the Group's assets and liabilities by reportable and operating segment:

| | At 31 December | | | At 31 October |
|---|---|---|---|---|
| | 2013 | 2014 | 2015 | 2016 |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| **Segment assets** | | | | |
| – Tap water supply | 683,468 | 785,374 | 1,055,179 | 1,385,418 |
| – Wastewater treatment | 382,858 | 647,950 | 1,001,849 | 1,157,886 |
| Unallocated corporate assets | – | – | 2,200 | 17,771 |
| Elimination | (33,000) | – | – | (30,126) |
| Consolidated total assets | 1,033,326 | 1,433,324 | 2,059,228 | 2,530,949 |
| **Segment liabilities** | | | | |
| – Tap water supply | 306,116 | 319,473 | 367,242 | 585,302 |
| – Wastewater treatment | 285,287 | 457,866 | 596,729 | 616,089 |
| Unallocated corporate liabilities | – | – | – | 9,047 |
| Elimination | (33,000) | – | – | (30,126) |
| Consolidated total liabilities | 558,403 | 777,339 | 963,971 | 1,180,312 |

For the purposes of monitoring segment performance and allocating resources between segments, all assets and liabilities are allocated to operating segments accordingly other than unallocated corporate assets (represent deferred listing expenses) and unallocated corporate liabilities (represent listing expenses payable).

**Other segment information**

Amounts included in the measure of segment profit and segment assets:

| | Year ended 31 December | | | Ten months ended 31 October | |
|---|---|---|---|---|---|
| | 2013 | 2014 | 2015 | 2015 | 2016 |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 (Unaudited) | RMB'000 |
| Interest income | | | | | |
| – Tap water supply | 798 | 796 | 1,466 | 1,349 | 1,073 |
| – Wastewater treatment | 13,642 | 15,944 | 19,493 | 15,768 | 21,721 |
| | 14,440 | 16,740 | 20,959 | 17,117 | 22,794 |
| Finance costs | | | | | |
| – Tap water supply | (3,295) | (2,733) | (5,232) | (4,843) | (8,083) |
| – Wastewater treatment | (2,941) | (9,032) | (9,189) | (5,643) | (9,114) |
| | (6,236) | (11,765) | (14,421) | (10,486) | (17,197) |
| Depreciation and amortisation | | | | | |
| – Tap water supply | (16,338) | (20,487) | (24,831) | (20,510) | (24,920) |
| – Wastewater treatment | (1,692) | (3,130) | (4,554) | (3,586) | (4,637) |
| | (18,030) | (23,617) | (29,385) | (24,096) | (29,557) |
| (Impairment losses) reversal of impairment losses on trade and other receivables | | | | | |
| – Tap water supply | (582) | 163 | (710) | (98) | – |
| – Wastewater treatment | (9) | 10 | (5) | – | – |
| | (591) | 173 | (715) | (98) | – |

| | Year ended 31 December | | | Ten months ended 31 October | |
|---|---|---|---|---|---|
| | 2013 | 2014 | 2015 | 2015 | 2016 |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 (Unaudited) | RMB'000 |
| Income tax expense | | | | | |
| – Tap water supply | (13,067) | (14,127) | (16,853) | (13,248) | (11,465) |
| – Wastewater treatment | (4,813) | (7,060) | (9,081) | (8,113) | (9,823) |
| | (17,880) | (21,187) | (25,934) | (21,361) | (21,288) |
| Provision for maintenance of infrastructure under service concession arrangements | | | | | |
| – Tap water supply | (6,035) | (6,243) | (8,172) | (6,810) | (21,156) |
| – Wastewater treatment | (19,587) | (19,133) | (19,243) | (16,036) | (19,790) |
| | (25,622) | (25,376) | (27,415) | (22,846) | (40,946) |
| Additions to non-current assets (other than financial instruments, deferred tax assets) | | | | | |
| – Tap water supply | (62,118) | (123,979) | (198,971) | (105,766) | (182,187) |
| – Wastewater treatment | (52,791) | (185,576) | (307,352) | (232,898) | (161,534) |
| | (114,909) | (309,555) | (506,323) | (338,664) | (343,721) |

The Group's revenue from its major products and services are set out in note 6.

**Geographical information**

The Group's operation is in the PRC and all its non-current assets other than receivables under service concession arrangements, available-for-sale investments and deferred income tax assets are situated in the PRC.

**Information about major customers**

Revenue from customers individually contributing over 10% of the total revenue of the Group are as follows:

| | Year ended 31 December | | | Ten months ended 31 October | |
|---|---|---|---|---|---|
| | 2013 | 2014 | 2015 | 2015 | 2016 |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 (Unaudited) | RMB'000 |
| Customer A | | | | | |
| – Operating service | 58,155 | 64,578 | 76,950 | 64,563 | 80,008 |
| – Interest income on receivables under service concession arrangements | 9,530 | 9,538 | 10,637 | 8,517 | 16,749 |
| – Construction and upgrade services of wastewater treatment infrastructure | 7,806 | 164,007 | 252,379 | 208,386 | 153,257 |
| Customer B | | | | | |
| – Construction and upgrade services of tap water supply infrastructure | 85,265 | 88,459 | 234,543 | 189,159 | 175,244 |

## 8. OTHER INCOME, EXPENSES, GAINS AND LOSSES, NET

| | Year ended 31 December | | | Ten months ended 31 October | |
|---|---|---|---|---|---|
| | 2013 | 2014 | 2015 | 2015 | 2016 |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 (Unaudited) | RMB'000 |
| Bank interest income | 989 | 993 | 2,000 | 1,571 | 1,277 |
| Deferred revenue in respect of government grants recognised | 6,590 | 8,739 | 7,130 | 5,486 | 5,399 |
| Government grants received *(Note a)* | 5,658 | – | – | – | – |
| Value-added-tax ("VAT") refunds *(Note b)* | – | – | 4,800 | 2,962 | 8,764 |
| Commission income on garbage fees collected for governmental bureau | 1,231 | 1,278 | 1,659 | 1,382 | 1,079 |
| Late charges on tap water users | 1,562 | 2,048 | 2,111 | 1,752 | 1,830 |
| Rental income less outgoings | 1,794 | 1,263 | 706 | 611 | 593 |
| Loss on derecognition of property, plant and equipment upon concession arrangements established, net | (12,096) | – | – | – | – |
| (Losses) gains on disposal of property, plant and equipment, net | (410) | (314) | 27 | (2) | 375 |
| Gain on disposal of prepaid lease payments | – | – | 775 | – | 654 |
| Gain on disposal of investment properties | – | – | – | – | 1,746 |
| (Impairment losses) reversal of impairment losses on trade and other receivables | (591) | 173 | (715) | (98) | – |
| Foreign exchange losses, net | (350) | (33) | (451) | (220) | (395) |
| Donations | (80) | (189) | (96) | (40) | (99) |
| Others *(Note c)* | 2,419 | 1,921 | 1,383 | 1,374 | 967 |
| | 6,716 | 15,879 | 19,329 | 14,778 | 22,190 |

*Notes:*

a. The government grants received are related to compensation for relocation of certain property, plant and equipment of the Group and loss on prepaid lease payments that have been incurred and expensed in previous years.

b. Commencing from 1 July 2015, the Group is required to pay VAT for wastewater treatment fees and such VAT paid are refundable pursuant to "Notice of the Ministry of Finance and the State Administration of Taxation on the Publication of the Directory of Value-added Tax Preferential Rate on Goods and Services with Comprehensive Utilisation of Resources" (Cai Shui [2015] No. 78) that the Group is entitled to refund of 70% of VAT paid for wastewater treatment fees upon achieving the technology requirements or pollutant emission standards prescribed in the notice. In the opinion of the Directors, the Group achieved both the technology requirements and pollutant emission standards.

c. Others mainly include water quality inspection fees, gain on sale of sanitaryware and other materials, etc.

## 9. FINANCE COSTS

| | Year ended 31 December | | | Ten months ended 31 October | |
|---|---|---|---|---|---|
| | 2013 | 2014 | 2015 | 2015 | 2016 |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 (Unaudited) | RMB'000 |
| Interest on bank borrowings | 1,261 | – | 1,866 | 1,510 | 20,592 |
| Interest on other borrowings | 3,152 | 18,525 | 22,770 | 18,538 | 2,626 |
| Unwinding of the discount *(Note 30)* | 1,823 | 2,741 | 2,815 | 2,346 | 3,005 |
| | 6,236 | 21,266 | 27,451 | 22,394 | 26,223 |
| Less: Amount capitalised in qualified assets | – | (9,501) | (13,030) | (11,908) | (9,026) |
| | 6,236 | 11,765 | 14,421 | 10,486 | 17,197 |

## 10. INCOME TAX EXPENSE

| | Year ended 31 December | | | Ten months ended 31 October | |
|---|---|---|---|---|---|
| | 2013 | 2014 | 2015 | 2015 | 2016 |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 (Unaudited) | RMB'000 |
| Current tax | 19,088 | 21,070 | 25,845 | 20,438 | 22,586 |
| Deferred tax *(Note 20)* | (1,208) | 117 | 89 | 923 | (1,298) |
| Total income tax recognised in profit or loss | 17,880 | 21,187 | 25,934 | 21,361 | 21,288 |

The Group entities are subject to PRC Enterprise Income Tax ("EIT") at 25% during the Track Record Period, except for the following group entities:

| Name of company | Applicable EIT rate | Financial periods |
|---|---|---|
| The Company*# | 15% | Three years ended 31 December 2013, 2014 and 2015 and ten months ended 31 October 2016 |
| Beijiao Water* | 15% | Three years ended 31 December 2013, 2014 and 2015 and ten months ended 31 October 2016 |
| Hejiang Water* | 15% | Three years ended 31 December 2013, 2014 and 2015 and ten months ended 31 October 2016 |
| Jiangnan Water* | 15% | Three years ended 31 December 2013, 2014 and 2015 and ten months ended 31 October 2016 |
| Naxi Water* | 15% | Three years ended 31 December 2013, 2014 and 2015 and ten months ended 31 October 2016 |
| Nanjiao Water* | 15% | Three years ended 31 December 2013, 2014 and 2015 and ten months ended 31 October 2016 |
| Sitong Engineering* | 15% | Three years ended 31 December 2013, 2014 and 2015 and ten months ended 31 October 2016 |
| Xinglu Wastewater Treatment* | 15% | Three years ended 31 December 2013, 2014 and 2015 and ten months ended 31 October 2016 |
| Zhongyuan Water Purification Material* | 15% | Two years ended 31 December 2013 and 2014 |
| Sitong Design** | 10% | Year ended 31 December 2015 and ten months ended 31 October 2016 |

* According to the Notice of the Enterprise Income Tax for Implementation of Exploration and Development of Western Region (Notice of the State Administration of Taxation No. 12 [2012]) and the Catalogue of Industries Encouraged to Develop in the Western Region (Order of the National Development and Reform Commission No. 15), companies located in the western region of the PRC and engaged in the business encouraged by the PRC government are entitled to the preferential EIT rate of 15% till 31 December 2020 if the operating revenue of the encouraged business in a year accounted for more than 70% of the total income in that year. During the Track Record Period, the Company and the above subsidiaries, which are located in the western region, are engaged in the encouraged businesses included in the related notice and catalogue and the total revenue of their major business for the relevant years accounted for more than 70% of their total revenue in these years, and therefore enjoy the preferential EIT rate of 15%.

** Pursuant to the Amendment of the State Administration of Taxation 2015 No. 61, for the three years ending 31 December 2017, small scale and low profit margin companies with annual taxable income of less than RMB200,000 (inclusive of RMB200,000) shall be subject to a business income tax rate of 20% based on the taxable income amounting to 50% of its income. Since Sitong Design satisfies the criteria of a small-scale and low profit-margin company, it shall be eligible for the preferential effective tax rate of 10%.

\# Excluding its branch in Lu County for the year ended 31 December 2013 whose applicable EIT rate at 25%. Starting from year ended 31 December 2014, its applicable EIT rate became 15% pursuant to the Notice of the Enterprise Income Tax for Implementation of Exploration and Development of Western Region.

Income tax expense for each of the Track Record Period can be reconciled to the profit before tax per the consolidated statements of profit or loss and other comprehensive income as follows:

| | Year ended 31 December | | | Ten months ended 31 October | |
|---|---|---|---|---|---|
| | **2013** | **2014** | **2015** | **2015** | **2016** |
| | **RMB'000** | **RMB'000** | **RMB'000** | **RMB'000 (Unaudited)** | **RMB'000** |
| Profit before tax | 105,833 | 136,719 | 170,352 | 139,905 | 141,448 |
| Tax at PRC EIT rate of 15% *(Note)* | 15,875 | 20,508 | 25,553 | 20,986 | 21,217 |
| Tax effect of expenses not deductible for tax purpose | 1,916 | 575 | 360 | 358 | 55 |
| Utilisation of tax losses previously not recognised | (262) | (8) | – | – | – |
| Effect of different applicable tax rates of subsidiaries | 351 | 112 | 21 | 17 | 16 |
| Income tax expense | 17,880 | 21,187 | 25,934 | 21,361 | 21,288 |

*Note:*

During the Track Record Period, the PRC EIT rate of 15% is applicable to the Company and most of its subsidiaries that account for substantial operation of the Group.

## 11. PROFIT BEFORE TAX

| | Year ended 31 December | | | Ten months ended 31 October | |
|---|---|---|---|---|---|
| | 2013 | 2014 | 2015 | 2015 | 2016 |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 (Unaudited) | RMB'000 |
| **Profit before tax has been arrived at after charging:** | | | | | |
| Depreciation of property, plant and equipment | 4,358 | 4,995 | 5,699 | 4,823 | 5,639 |
| Depreciation of investment properties | 607 | 454 | 386 | 195 | 391 |
| Amortisation of intangible assets | 12,462 | 17,394 | 21,693 | 17,827 | 22,180 |
| Amortisation of prepaid lease payments | 603 | 774 | 1,607 | 1,251 | 1,347 |
| Staff costs (including the Directors' and supervisors' remuneration as disclosed in note 12 below): | | | | | |
| – Salaries, wages and welfare | 51,998 | 64,070 | 69,449 | 55,937 | 62,090 |
| – Retirement benefit schemes contributions | 8,901 | 11,367 | 14,288 | 11,812 | 11,902 |
| Total staff costs | 60,899 | 75,437 | 83,737 | 67,749 | 73,992 |
| **and after crediting:** | | | | | |
| Gross rental income from investment properties | 2,310 | 1,495 | 938 | 801 | 845 |
| Less: Direct operating expenses incurred for investment properties that generated rental income | (516) | (232) | (232) | (190) | (252) |
| | 1,794 | 1,263 | 706 | 611 | 593 |

## 12. DIRECTORS', SUPERVISORS', CHIEF EXECUTIVE'S AND EMPLOYEES' EMOLUMENTS

**Directors and supervisors**

Details of the emoluments paid to the Directors and supervisors for the each of the Track Record Period are as follows:

| | | Other emoluments | | |
|---|---|---|---|---|
| | Fees | Salaries, wages, allowance and others | Retirement benefit schemes contributions | Total |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| **Year ended 31 December 2013** | | | | |
| *Executive Directors* | | | | |
| Ms. Liu Jun Tao | – | – | – | – |
| Mr. Chen Bing | – | – | – | – |
| Mr. Yang Rong Gui | – | – | – | – |
| Mr. Zhang Qi | – | 690 | 49 | 739 |
| Mr. Lei Qi Ming | – | 69 | 37 | 106 |
| Mr. Wang Jun Hua | – | 543 | 49 | 592 |
| Ms. Xiang Min | – | 76 | 36 | 112 |
| *Supervisors* | | | | |
| Ms. Qu Mei | – | – | – | – |
| Ms. Huang Mei | – | 516 | 49 | 565 |
| Mr. Gu Ji Zhou | – | 48 | 29 | 77 |
| Ms. Xiao Yu Hong | – | 110 | 35 | 145 |
| Mr. Huang Xiao Lin | – | 132 | 36 | 168 |
| | – | 2,184 | 320 | 2,504 |

| | Fees | Other emoluments | | Total |
|---|---|---|---|---|
| | | Salaries, wages, allowance and others | Retirement benefit schemes contributions | |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| **Year ended 31 December 2014** | | | | |
| *Executive Directors* | | | | |
| Ms. Liu Jun Tao | – | – | – | – |
| Mr. Chen Bing | – | – | – | – |
| Mr. Yang Rong Gui | – | – | – | – |
| Mr. Zhang Qi | – | 548 | 61 | 609 |
| Mr. Lei Qi Ming *(Note (b))* | – | – | – | – |
| Mr. Wang Jun Hua | – | 448 | 61 | 509 |
| Ms. Xiang Min | – | 269 | 55 | 324 |
| Ms. Xu Yan *(Note (b))* | – | – | – | – |
| *Supervisors* | | | | |
| Ms. Qu Mei | – | – | – | – |
| Ms. Huang Mei | – | 398 | 61 | 459 |
| Mr. Gu Ji Zhou *(Note (a))* | – | – | – | – |
| Ms. Xiao Yu Hong *(Note (a))* | – | – | – | – |
| Mr. Huang Xiao Lin | – | 150 | 49 | 199 |
| Mr. Zhu Yu Chuan *(Note (a))* | – | 154 | 49 | 203 |
| Mr. Xu Yuan Guo *(Note (a))* | – | – | – | – |
| | – | 1,967 | 336 | 2,303 |
| **Year ended 31 December 2015** | | | | |
| *Executive Directors* | | | | |
| Ms. Liu Jun Tao *(Note (d))* | – | – | – | – |
| Mr. Chen Bing | – | – | – | – |
| Mr. Yang Rong Gui | – | – | – | – |
| Mr. Zhang Qi | – | 605 | 70 | 675 |
| Mr. Wang Jun Hua | – | 427 | 70 | 497 |
| Ms. Xiang Min | – | 354 | 66 | 420 |
| Ms. Xu Yan | – | – | – | – |
| Mr. Liao Xing Yue *(Note (c))* | – | – | – | – |
| *Supervisors* | | | | |
| Ms. Qu Mei | – | – | – | – |
| Ms. Huang Mei | – | 487 | 70 | 557 |
| Mr. Huang Xiao Lin | – | 155 | 59 | 214 |
| Mr. Zhu Yu Chuan | – | 160 | 62 | 222 |
| Mr. Xu Ke *(Note (c))* | – | – | – | – |
| | – | 2,188 | 397 | 2,585 |

| | | Other emoluments | | |
|---|---|---|---|---|
| | Fees | Salaries, wages, allowance and others | Retirement benefit schemes contributions | Total |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| *(Unaudited)* | | | | |
| **Ten months ended 31 October 2015** | | | | |
| *Executive Directors* | | | | |
| Ms. Liu Jun Tao *(Note (d))* | – | – | – | – |
| Mr. Chen Bing | – | – | – | – |
| Mr. Yang Rong Gui | – | – | – | – |
| Mr. Zhang Qi | – | 505 | 55 | 560 |
| Mr. Wang Jun Hua | – | 356 | 55 | 411 |
| Ms. Xiang Min | – | 295 | 53 | 348 |
| Ms. Xu Yan | – | – | – | – |
| *Supervisors* | | | | |
| Ms. Qu Mei | – | – | – | – |
| Ms. Huang Mei | – | 405 | 55 | 460 |
| Mr. Huang Xiao Lin | – | 129 | 47 | 176 |
| Mr. Zhu Yu Chuan | – | 133 | 48 | 181 |
| | – | 1,823 | 313 | 2,136 |

| | | Other emoluments | | |
|---|---|---|---|---|
| | Fees | Salaries, wages, allowance and others | Retirement benefit schemes contributions | Total |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| **Ten months ended 31 October 2016** | | | | |
| *Executive Directors* | | | | |
| Mr. Chen Bing | – | – | – | – |
| Mr. Yang Rong Gui | – | – | – | – |
| Mr. Zhang Qi | – | 396 | 62 | 458 |
| Mr. Wang Jun Hua | – | 265 | 62 | 327 |
| Ms. Xiang Min *(Note (e))* | – | 167 | 44 | 211 |
| Ms. Xu Yan | – | – | – | – |
| Mr. Liao Xing Yue | – | 156 | 22 | 178 |
| *Supervisors* | | | | |
| Ms. Qu Mei | – | – | – | – |
| Ms. Huang Mei *(Note (f))* | – | 330 | 62 | 392 |
| Mr. Huang Xiao Lin *(Note (g))* | – | 71 | 34 | 105 |
| Mr. Zhu Yu Chuan | – | 163 | 47 | 210 |
| Mr. Xu Ke | – | – | – | – |
| Ms. Xiang Min *(Note (e))* | – | 70 | 18 | 88 |
| | – | 1,618 | 351 | 1,969 |

The emoluments of the executive directors and supervisors shown above were mainly for their management services rendered to the Group.

*Notes:*

(a) Mr. Gu Ji Zhou and Ms. Xiao Yu Hong resigned as supervisors and Mr. Zhu Yu Chuan and Mr. Xu Yuan Guo were appointed as supervisors on 27 August 2014.

(b) Mr. Lei Qi Ming resigned as an executive director and Ms. Xu Yan was appointed as an executive director on 31 December 2014.

(c) Mr. Xu Ke was appointed as a supervisor and Mr. Liao Xing Yue was appointed as an executive director on 22 December 2015.

(d) Ms. Liu Jun Tao resigned as an executive director on 25 September 2015.

(e) Ms. Xiang Min resigned as an executive director on 16 May 2016 and was appointed as a supervisor on 13 July 2016.

(f) Ms. Huang Mei resigned as a supervisor on 1 June 2016.

(g) Mr. Huang Xiao Lin resigned as a supervisor on 13 July 2016.

During the Track Record Period, Mr. Zhang Qi was the General Manager of the Company for the period from 1 January 2013 to 21 December 2015 and Mr. Liao Xing Yue is the General Manager of the Company for the period from 22 December 2015 to 31 October 2016 and they assumed the role of the chief executive. Their emoluments disclosed above included their services rendered as General Manager of the Company.

**Employees**

Of the five individuals with the highest emoluments in the Group, 3, 4, 4, 4 (unaudited) and 4 individuals were executive directors and supervisors whose emoluments for each of three years ended 31 December 2013, 2014 and 2015 and ten months ended 31 October 2015 and 2016, respectively, are included in the disclosure above and the emoluments of the remaining 2, 1, 1, 1 (unaudited) and 1 individuals were as follows:

| | Year ended 31 December | | | Ten months ended 31 October | |
|---|---|---|---|---|---|
| | **2013** | **2014** | **2015** | **2015** | **2016** |
| | **RMB'000** | **RMB'000** | **RMB'000** | **RMB'000 (Unaudited)** | **RMB'000** |
| Salaries, wages, allowance and others | 714 | 300 | 252 | 209 | 370 |
| Retirement benefit schemes contributions | 95 | 61 | 20 | 16 | 62 |
| | 809 | 361 | 272 | 225 | 432 |

The emoluments of the above employees were within the following bands:

| | Year ended 31 December | | | Ten months ended 31 October | |
|---|---|---|---|---|---|
| | **2013** | **2014** | **2015** | **2015** | **2016** |
| | | | **(Number of employees)** | | |
| | | | | **(Unaudited)** | |
| Less than HK$1,000,000 | 2 | 1 | 1 | 1 | 1 |

During the Track Record Period, no emoluments were paid by the Group to any Directors nor supervisors as an inducement to join or upon joining the Group or as compensation for loss of office and none of the Directors nor supervisors waived any emoluments.

**13. DIVIDENDS**

Dividends of RMB92,086,000, RMB83,332,000, RMB12,176,000, RMB12,176,000 (unaudited) and Nil have been distributed by the Company to its then equity holders during the years ended 31 December 2013, 2014 and 2015 and for the ten months ended 31 October 2015 and 2016, respectively.

It is not meaningful to present dividend per share information because the Company did not have the number of ordinary shares when the above dividends were declared.

**14. EARNINGS PER SHARE**

The calculation of the basic earnings per share attributable to owners of the Company is based on the following data:

| | Year ended 31 December | | | Ten months ended 31 October | |
|---|---|---|---|---|---|
| | **2013** | **2014** | **2015** | **2015** | **2016** |
| | | | | **(Unaudited)** | |
| Profit attributable to the owners of the Company *(RMB'000)* | 73,894 | 100,386 | 130,412 | 105,008 | 106,719 |
| Weighted average number of ordinary shares issued or deemed to be issued *('000)* | 398,040 | 401,245 | 594,617 | 593,337 | 636,477 |

The Company was converted to a joint stock company on 25 December 2015, 600,000,000 ordinary shares with par value of RMB1 each were issued and allotted to the respective shareholders of the Company according to the paid-in capital registered under these shareholders on that day. This capitalisation of share capital is applied retrospectively, as adjusted for the capital contributions by shareholders (Note 31) and the division (Note 31), during the Track Record Period for the purpose of computation of basic earnings per share.

During the Track Record Period, there was no potential ordinary share outstanding. Accordingly, no diluted earnings per share is presented.

## 15. PROPERTY, PLANT AND EQUIPMENT

### THE GROUP

| | Buildings | Machinery and office equipment | Motor vehicles | Office furniture and fixtures | Total |
|---|---|---|---|---|---|
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| **Cost** | | | | | |
| At 1 January 2013 | 122,480 | 136,414 | 11,593 | 434 | 270,921 |
| Addition | 1,330 | 8,198 | 1,329 | 1,099 | 11,956 |
| Derecognised upon the service concession arrangements established | (73,265) | (118,331) | – | – | (191,596) |
| Disposal | (4,605) | (4,723) | (163) | – | (9,491) |
| At 31 December 2013 | 45,940 | 21,558 | 12,759 | 1,533 | 81,790 |
| Addition | 2,517 | 5,552 | 2,813 | 338 | 11,220 |
| Disposal in the deemed distribution *(Note 32)* | (25,661) | (1,749) | – | – | (27,410) |
| Disposal | (3,693) | (2,473) | (744) | – | (6,910) |
| At 31 December 2014 | 19,103 | 22,888 | 14,828 | 1,871 | 58,690 |
| Addition | 425 | 8,166 | 59 | 1,351 | 10,001 |
| Disposal | – | (196) | (6) | – | (202) |
| At 31 December 2015 | 19,528 | 30,858 | 14,881 | 3,222 | 68,489 |
| Addition | 162 | 1,608 | 1,220 | 478 | 3,468 |
| Disposal | (466) | (425) | (189) | – | (1,080) |
| At 31 October 2016 | 19,224 | 32,041 | 15,912 | 3,700 | 70,877 |
| **Accumulated depreciation** | | | | | |
| At 1 January 2013 | (15,923) | (23,652) | (6,202) | (65) | (45,842) |
| Depreciation for the year | (2,066) | (715) | (1,032) | (545) | (4,358) |
| Derecognised upon the service concession arrangements established | 3,413 | 12,109 | – | – | 15,522 |
| Eliminated on disposal | 1,223 | 3,444 | 155 | – | 4,822 |
| At 31 December 2013 | (13,353) | (8,814) | (7,079) | (610) | (29,856) |
| Depreciation for the year | (1,418) | (1,813) | (1,298) | (466) | (4,995) |
| Disposal in the deemed distribution *(Note 32)* | 7,497 | 117 | – | – | 7,614 |
| Eliminated on disposal | 1,993 | 1,336 | 689 | – | 4,018 |
| At 31 December 2014 | (5,281) | (9,174) | (7,688) | (1,076) | (23,219) |
| Depreciation for the year | (1,036) | (2,473) | (1,606) | (584) | (5,699) |
| Eliminated on disposal | – | 165 | 4 | – | 169 |
| At 31 December 2015 | (6,317) | (11,482) | (9,290) | (1,660) | (28,749) |
| Depreciation for the period | (863) | (2,357) | (1,837) | (582) | (5,639) |
| Eliminated on disposal | 158 | 379 | 182 | – | 719 |
| At 31 October 2016 | (7,022) | (13,460) | (10,945) | (2,242) | (33,669) |
| **Carrying amounts** | | | | | |
| At 31 December 2013 | 32,587 | 12,744 | 5,680 | 923 | 51,934 |
| At 31 December 2014 | 13,822 | 13,714 | 7,140 | 795 | 35,471 |
| At 31 December 2015 | 13,211 | 19,376 | 5,591 | 1,562 | 39,740 |
| At 31 October 2016 | 12,202 | 18,581 | 4,967 | 1,458 | 37,208 |

**THE COMPANY**

| | Buildings | Office equipment | Motor vehicles | Office furniture and fixtures | Total |
|---|---|---|---|---|---|
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| **Cost** | | | | | |
| At 1 January 2013 | 29,383 | 12,773 | 6,487 | – | 48,643 |
| Addition | – | 2,168 | 503 | 1,099 | 3,770 |
| Disposal | (100) | (2,370) | – | – | (2,470) |
| At 31 December 2013 | 29,283 | 12,571 | 6,990 | 1,099 | 49,943 |
| Addition | 1,488 | 4,007 | 1,924 | – | 7,419 |
| Disposal in the deemed distribution | (25,661) | (837) | – | – | (26,498) |
| Disposal | (2,624) | (164) | (508) | – | (3,296) |
| At 31 December 2014 | 2,486 | 15,577 | 8,406 | 1,099 | 27,568 |
| Addition | 425 | 7,501 | – | 973 | 8,899 |
| Disposal | – | (62) | (6) | – | (68) |
| At 31 December 2015 | 2,911 | 23,016 | 8,400 | 2,072 | 36,399 |
| Addition | – | 912 | 10 | 202 | 1,124 |
| Disposal | (260) | (425) | (189) | – | (874) |
| At 31 October 2016 | 2,651 | 23,503 | 8,221 | 2,274 | 36,649 |
| **Accumulated depreciation** | | | | | |
| At 1 January 2013 | (7,159) | (7,002) | (3,459) | – | (17,620) |
| Depreciation for the year | (987) | (758) | (605) | (458) | (2,808) |
| Eliminated on disposal | 29 | 1,850 | – | – | 1,879 |
| At 31 December 2013 | (8,117) | (5,910) | (4,064) | (458) | (18,549) |
| Depreciation for the year | (899) | (821) | (711) | (367) | (2,798) |
| Disposal in the deemed distribution | 7,497 | 117 | – | – | 7,614 |
| Eliminated on disposal | 844 | 211 | 469 | – | 1,524 |
| At 31 December 2014 | (675) | (6,403) | (4,306) | (825) | (12,209) |
| Depreciation for the year | (577) | (1,145) | (913) | (356) | (2,991) |
| Eliminated on disposal | – | 66 | 4 | – | 70 |
| At 31 December 2015 | (1,252) | (7,482) | (5,215) | (1,181) | (15,130) |
| Depreciation for the period | (375) | (1,357) | (1,282) | (309) | (3,323) |
| Eliminated on disposal | 29 | 379 | 182 | – | 590 |
| At 31 October 2016 | (1,598) | (8,460) | (6,315) | (1,490) | (17,863) |
| **Carrying amounts** | | | | | |
| At 31 December 2013 | 21,166 | 6,661 | 2,926 | 641 | 31,394 |
| At 31 December 2014 | 1,811 | 9,174 | 4,100 | 274 | 15,359 |
| At 31 December 2015 | 1,659 | 15,534 | 3,185 | 891 | 21,269 |
| At 31 October 2016 | 1,053 | 15,043 | 1,906 | 784 | 18,786 |

The above items of property, plant and equipment are depreciated on a straight-line basis based on their estimated useful lives of the following years, after taking into account the estimated residual value of 3% to 5%:

| | |
|---|---|
| Buildings | 10–50 years |
| Machinery and office equipment | 3–10 years |
| Motor vehicles | 5–10 years |
| Office furniture and fixtures | 3–10 years |

As at 31 October 2016, the Company's subsidiaries have not yet obtained the property ownership certificates of the above buildings with carrying amounts of RMB222,000 (as at 31 December 2015: RMB235,000; as at 31 December 2014: RMB245,000; as at 31 December 2013: RMB255,000). The buildings were disposed of in November 2016.

**16. INVESTMENT PROPERTIES**

| | THE GROUP | THE COMPANY |
|---|---|---|
| | RMB'000 | RMB'000 |
| **Cost** | | |
| At 1 January 2013 | 16,856 | 10,580 |
| Addition | 344 | 344 |
| Disposal | (86) | (86) |
| At 31 December 2013 | 17,114 | 10,838 |
| Addition | 238 | – |
| Disposal in the deemed distribution *(Note 32)* | (9,383) | (9,383) |
| At 31 December 2014 | 7,969 | 1,455 |
| Event-driven revaluation *(Note)* | 10,811 | – |
| At 31 December 2015 | 18,780 | 1,455 |
| Addition | 649 | – |
| Disposal | (2,024) | (1,455) |
| At 31 October 2016 | 17,405 | – |
| **Accumulated depreciation** | | |
| At 1 January 2013 | (6,016) | (2,762) |
| Depreciation for the year | (607) | (345) |
| Eliminated on disposal | 38 | 38 |
| At 31 December 2013 | (6,585) | (3,069) |
| Depreciation for the year | (454) | (199) |
| Disposal in the deemed distribution *(Note 32)* | 2,555 | 2,555 |
| At 31 December 2014 | (4,484) | (713) |
| Depreciation for the year | (386) | (48) |
| Event-driven revaluation *(Note)* | 273 | – |
| At 31 December 2015 | (4,597) | (761) |
| Depreciation for the period | (391) | (19) |
| Eliminated on disposal | 1,016 | 780 |
| At 31 October 2016 | (3,972) | – |
| **Carrying amounts** | | |
| At 31 December 2013 | 10,529 | 7,769 |
| At 31 December 2014 | 3,485 | 742 |
| At 31 December 2015 | 14,183 | 694 |
| At 31 October 2016 | 13,433 | – |

*Note:*

As part of the Reorganisation, Luzhou Water Crystal Mall, a subsidiary of the Company, was transformed from a state-owned enterprise to a limited liability company by the Company. According to certain regulations issued by State-owned Assets Supervision and Administration Commission of the State Council ("SASAC"), all assets and liabilities of Luzhou Water Crystal Mall should be revalued and the revaluation surplus should be recorded in its equity upon the transformation. The Company engaged 四川榮盛資產評估事務所 ("Sichuan Rong Sheng"), a certified asset appraiser in the PRC and a member of China Appraisal Society, to carry out an independent valuation on the assets and liabilities of Luzhou Water Crystal Mall as at 31 May 2015, the valuation date for the purpose of such exercise. Sichuan Rong Sheng issued a valuation report of 3 December 2015 which was approved by Luzhou SASAC in the same year.

Based on the valuation, the investment property of Luzhou Water Crystal Mall was valued at RMB11,111,000 which was used as its deemed cost as at 1 June 2015 after the revaluation and an event-driven revaluation was recorded. Such event-driven revaluation surplus less a deferred tax liability of RMB2,771,000 recognised thereof amounting to RMB8,313,000 was credited to capital reserve.

The above investment properties are situated in the PRC held under medium term leases and are depreciated on a straight-line basis between 20 and 30 years, after taking into account the estimated residual value of 3% to 5%.

**17. SERVICE CONCESSION ARRANGEMENTS**

The Group has entered into a number of service concession arrangements with certain governmental authorities in the PRC. These service concession arrangements generally involve the Group as an operator (i) paying a specific amount for purchasing the relevant infrastructure for operation under the service concession arrangements; (ii) using the existing property, plant and equipment and prepaid lease payments of the Group (the infrastructure) for provision of services under the service concession arrangements; and (iii) operating and maintaining the infrastructure at a specified level of serviceability for the period of 30 years (the "Service Concession Period"), and the Group will be paid for its services over the Service Concession Period at prices stipulated through a pricing mechanism. The Group is generally entitled to use all the infrastructure, however, the relevant governmental authorities as grantors will control and regulate the scope of service that the Group must provide with the infrastructure. Most of such infrastructure is used for its entire useful life under the arrangements.

These service concession arrangements are governed by agreements entered into between the Group and the relevant governmental authorities 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 maintain the infrastructure to a specified level of serviceability during the Service Concession Period, restrictions on the Group's practical ability to sell or pledge the infrastructure and/or the licence under the service concession arrangements, and arrangements for arbitrating disputes.

As further explained in the accounting policy for "Service concession arrangements" set out in note 4, the consideration paid by the Group for a service concession arrangement is accounted for as an intangible asset (operating concession) or a financial asset (receivable under a service concession arrangement) or a combination of both, as appropriate.

In June 2005, the Group entered into a concession agreement with Luzhou Planning and Development Bureau for tap water supply operations in Luzhou urban area. In March 2016, the Group further entered into supplementary agreement to the concession agreement to update the relevant terms and set out further details and clarification of concession rights granted to the Group.

In September 2003, the Group entered into a share purchase agreement with Hejiang County Government which agreed to grant the Group the exclusive concession right to provide tap water supply service in Hejiang County area and applicable beneficial treatments for urban public utility service providers. In April 2016, the Group further entered into a concession agreement with Hejiang County Government which confirmed that the Group have the necessary qualifications and rights to conduct tap water supply service in Hejiang County area since the time the Group started to provide such services in Hejiang County area and the concession agreement also expressly sets forth that the term of the concession rights granted to the Group is for the concession period from September 2003 to September 2033.

In August 2001 and August 2002, the Luzhou City Government issued two meeting minutes designating the Group as the tap water supply service provider in Lu County area. In March 2016, the Group further entered into a concession agreement with Lu County Housing and Urban-rural Planning and Development Bureau which confirmed that the Group has necessary qualifications and rights to conduct tap water supply service in Lu County area from January 2005 to January 2035.

Based on the above, the Directors determined that the Group entered into service concession arrangements with the aforesaid relevant government authorities to provide tap water supply in Luzhou urban area, Lu County area and Hejiang County area commencing from June 2005, January 2005 and September 2003, respectively. Upon the respective service concession arrangements established, the then relevant property, plant and equipment and prepaid lease payments of the Group were derecognised and they were recognised as intangible assets of the Group at fair value of these property, plant and equipment and prepaid lease payment as at corresponding dates. Besides, during the Service Concession Period, the Group also constructed/upgraded certain tap water supply infrastructure in Luzhou urban area, Lu County area and Hejiang County area to expand its tap water supply capacity and recognised the cost incurred to date plus recognised profits less recognised losses, if any, in intangible assets. Details of the Group's service concession arrangements for providing tap water supply are as follows:

| | Luzhou urban area | Lu County area | Hejiang County area |
|---|---|---|---|
| Term of concession rights | 30 years, from 6 June 2005 to 6 June 2035. | 30 years, from 1 January 2005 to 1 January 2035. | 30 years, from 24 September 2003 to 23 September 2033. |
| Rights to use specific assets | All relevant tap water supply infrastructure. | All relevant tap water supply infrastructure. | All relevant tap water supply infrastructure. |
| Pricing | Initial unit prices for different types of end users are set out in the concession agreement. And, the Group shall be entitled to:<br>• apply for adjustments to the retail water prices in the event the Group cannot maintain minimal profit in its tap water supply operations due to changes on production costs or objective conditions; and<br>• reasonable compensation for losses incurred due to government policies in relation to public interest. | Initial unit prices for different types of end users are set out in the concession agreement. And, the Group shall be entitled to:<br>• apply for adjustments to the retail water prices in the event the Group cannot maintain profit in its tap water supply operations; and<br>• reasonable compensation for losses incurred due to government policies in relation to public interest. | Initial unit prices for different types of end users are set out in the concession agreement. And, the Group shall be entitled to:<br>• apply for adjustments to the retail water prices in the event the Group suffers loss due to irresistible objective conditions; and<br>• reasonable compensation for losses incurred due to government policies in relation to public interest. |
| Responsibilities | During the concession period, the Group shall:<br>• ensure uninterrupted tap water supply to end users;<br>• maintain water supply infrastructure;<br>• monitor the quality of raw water source;<br>• perform meter readings; and<br>• disclose to the public the relevant tap water supply parameters, including quality, supply pressure and other service measures. | During the concession period, the Group shall:<br>• ensure uninterrupted tap water supply to end users;<br>• maintain water supply infrastructure;<br>• monitor the quality of raw water source;<br>• perform meter readings; and<br>• disclose to the public the relevant tap water supply parameters, including quality, supply pressure and other service measures. | During the concession period, the Group shall:<br>• ensure uninterrupted tap water supply to end users;<br>• maintain water supply infrastructure;<br>• monitor the quality of raw water source;<br>• perform meter readings; and<br>• disclose to the public the relevant tap water supply parameters, including quality, supply pressure and other service measures. |

| | Luzhou urban area | Lu County area | Hejiang County area |
|---|---|---|---|
| Terms of termination | Upon expiry of concession period or in the event of the Group's default, including (amongst others):<br>• asset disposal without permission;<br>• material adverse impact on public interest and safety due to close of business without permission;<br>• material quality or safety accidents; or<br>• pledge of assets for borrowings used in projects other than tap water supply under the concession agreement or beyond the concession period. | Upon expiry of concession period or in the event of the Group's default, including (amongst others):<br>• asset disposal without permission;<br>• material adverse impact on public interest and safety due to close of business without permission;<br>• material quality or safety accidents; or<br>• pledge of assets for borrowings used in projects other than tap water supply under the concession agreement or beyond the concession period. | Upon expiry of concession period or in the event of the Group's default, including (amongst others):<br>• fund raising activities not in compliance with the relevant provisions that resulted in unauthorised asset pledge or disposal;<br>• material adverse impact on public interest and safety due to close of business without permission;<br>• material quality or safety accidents; or<br>• pledge of assets for borrowings used in projects other than tap water supply under the concession agreement or beyond the concession period. |
| Rights to receive specified assets at the end of the concession period | Infrastructure remained (previously invested by the Group) at the end of the concession period, if any. | Infrastructure remained (previously invested by the Group) at the end of the concession period, if any. | Infrastructure remained (previously invested by the Group before the concession agreement entered into in April 2016) at the end of the concession period, if any; if the Group fails to obtain the concession right in the bidding after the expiry of the concession period, such infrastructure will be purchased by Hejiang County Government at a consideration appraised by a third-party appraisal company. Infrastructure invested by the Group after the concession agreement and remained at the end of the concession period, if any, will be transferred to Hejiang County Government at a consideration appraised by a third-party appraisal company. |
| Terms of renewal | Priority to extend the concession right upon expiration if the Group's performance during the concession period is satisfactory. | Priority to extend the concession right upon expiration if the Group's performance during the concession period is satisfactory. | Priority to extend the concession right upon expiration if the Group's performance during the concession period is satisfactory and the Group offers the same conditions as other bidders. |

In August 2012, the Group entered into a service agreement with Naxi District Government for the grant of concession right to the Group to provide wastewater treatment service in Naxi District. In May 2014, the Group entered into a concession agreement with Luzhou Housing and Urban-rural Planning and Development Bureau that confirmed the Group's concession right to cover the provision of wastewater treatment service in Jiangyang District, Longmatan District and Naxi District for the period from 1 January 2013 to 31 December 2042.

In March 2016, the Group entered into a supplemental agreement to the aforesaid concession agreement with Luzhou Housing and Urban-rural Planning and Development Bureau to update the relevant terms and set out further details and clarification of concession rights granted to the Group.

In October 2011, the Group entered into a service agreement with the People's Government of Xuyong County that set forth the grant of concession right to the Group to provide wastewater treatment service in Xuyong County area.

In February 2013, the Group entered into a service agreement with Lu County Urban-rural Environmental and Health Bureau that set forth the grant of concession right to the Group to provide wastewater treatment service in Lu County area.

In April 2014, the Group entered into a service agreement with the People's Government of Hejiang County that set forth the grant of concession right to the Group to provide wastewater treatment service in Hejiang County area.

In July 2014, the Group entered into a service agreement with the People's Government of Gulin County that set forth the grant of concession right to the Group to provide wastewater treatment service in Gulin County area.

In March/April 2016, the Group further entered into concession agreements with the People's Government of Xuyong County, Lu County Urban-rural Environmental and Health Bureau, the People's Government of Hejiang County and the People's Government of Gulin County to update the relevant terms and set out further details and clarification of concession rights granted to the Group.

Based on the above, the Directors determined that the Group entered into service concession arrangements with the aforesaid relevant government authorities to provide wastewater treatment service in Luzhou urban area, Lu County area, Gulin County area, Xuyong County area and Hejiang County area in January 2013, February 2013, August 2014, March 2012 and May 2014, respectively. Except for the service concession arrangements for Luzhou urban area (excluding Naxi District), the Group paid for the relevant infrastructure in Lu County area, Gulin County area, Xuyong County area, Hejiang County area and Naxi District and recognised as both receivables under service concession arrangements and intangible assets. The then relevant property, plant and equipment of the Group for Luzhou urban area (excluding Naxi District) were derecognised and both receivables under service concession arrangements and intangible assets were recognised by the Group at fair value of these property, plant and equipment upon the service concession arrangement established. Besides, during the Service Concession Period, the Group also constructed certain new wastewater treatment infrastructure in Luzhou urban area to expand its wastewater treatment capacity and recognised the cost incurred to date plus recognised profits less recognised losses, if any, in intangible assets during the construction phase and transferred the portion representing the extent that the Group has a contractual right to receive cash from grantors from intangible assets to receivables under service concession agreements when the Group is entitled to the minimum wastewater treatment volume guaranteed according to the relevant service concession agreements. Details of the Group's service concession arrangements for providing wastewater treatment service are as follows:

| | **Luzhou urban area** | **Lu County area** | **Gulin County area** | **Xuyong County area** | **Hejiang County area** |
|---|---|---|---|---|---|
| Term of concession rights | 30 years, from 1 January 2013 to 31 December 2042. | 30 years, from 1 February 2013 to 31 January 2043. | 30 years, from 1 August 2014 to 31 July 2044. | 30 years, from 1 March 2012 to 28 February 2042. | 30 years, from 1 May 2014 to 30 April 2044. |
| Rights to use specific assets | All relevant wastewater treatment infrastructure. | All relevant wastewater treatment infrastructure. | All relevant wastewater treatment infrastructure. | All relevant wastewater treatment infrastructure. | All relevant wastewater treatment infrastructure. |

| | Luzhou urban area | Lu County area | Gulin County area | Xuyong County area | Hejiang County area |
|---|---|---|---|---|---|
| Pricing | Initial wastewater treatment unit tariff price is set out in the relevant service agreement. Routine review of wastewater treatment unit tariff price is conducted every three years. Non-routine review of wastewater treatment unit tariff price is conducted upon change in production costs or additional capital expenditure incurred due to compliance with new environmental requirements. | Initial wastewater treatment unit tariff price is set out in the relevant service agreement. The Group can apply for wastewater treatment tariff unit price adjustment according to the average wastewater treatment tariff unit price of Luzhou urban area approved by the local governmental bureau or based on cost plus reasonable profit margin. | Initial wastewater treatment unit tariff price is set out in the relevant service agreement. Subsequent wastewater treatment tariff unit price adjustment is negotiated based on mutual agreement. | Initial wastewater treatment unit tariff price is set out in the relevant service agreement. The Group can apply for wastewater treatment tariff unit price adjustment according to the average wastewater treatment tariff unit price of Luzhou urban area approved by the local governmental bureau or based on cost plus reasonable profit margin. | Initial wastewater treatment unit tariff price is set out in the relevant service agreement. Subsequent wastewater treatment tariff unit price adjustment is negotiated based on mutual agreement. |
| Minimum wastewater treatment volume guaranteed | 60%, 70% and 75% (80% for Naxi District) of designed production capacity for the first, the second and the third year of operation, respectively, and 80% (100% for Naxi District) of designed production capacity for the fourth year and thereafter. | 70%, 80% and 90% of designed production capacity for the first, the second and the third year of operation, respectively, and 100% of designed production capacity for the fourth year and thereafter. | 60% and 80% of designed production capacity for the first and the second year of operation, respectively, and 90% of designed production capacity for the third year and thereafter. | 60%, 70% and 80% of designed production capacity for the first, the second and the third year of operation, respectively, and 100% of designed production capacity for the fourth year and thereafter. | 60% and 80% of designed production capacity for the first and the second year of operation, respectively, and 90% of designed production capacity for the third year and thereafter. |
| Responsibilities | During the concession period, the Group shall:<br>• maintain serviceability of the wastewater treatment infrastructure;<br>• maintain quality monitoring and inspection procedures of wastewater and discharged water, and remedial protocols;<br>• not pledge assets for borrowings used in projects other than wastewater treatment service under the concession right agreement or beyond the concession period; and<br>• not dispose of asset without permission. | During the concession period, the Group shall:<br>• maintain serviceability of the wastewater treatment infrastructure;<br>• maintain quality monitoring and inspection procedures of wastewater and discharged water, and remedial protocols; and<br>• not pledge assets for borrowings used in projects other than wastewater treatment service under the concession right agreement or beyond the concession period. | During the concession period, the Group shall:<br>• maintain serviceability of the wastewater treatment infrastructure;<br>• maintain quality monitoring and inspection procedures of wastewater and discharged water, and remedial protocols; and<br>• not pledge assets for borrowings used in projects other than wastewater treatment service under the concession right agreement or beyond the concession period. | During the concession period, the Group shall:<br>• maintain serviceability of the wastewater treatment infrastructure;<br>• maintain quality monitoring and inspection procedures of wastewater and discharged water, and remedial protocols; and<br>• not pledge assets for borrowings used in projects other than wastewater treatment service under the concession right agreement or beyond the concession period. | During the concession period, the Group shall:<br>• maintain serviceability of the wastewater treatment infrastructure;<br>• maintain quality monitoring and inspection procedures of wastewater and discharged water, and remedial protocols; and<br>• not pledge assets for borrowings used in projects other than wastewater treatment service under the concession right agreement or beyond the concession period. |

| | Luzhou urban area | Lu County area | Gulin County area | Xuyong County area | Hejiang County area |
|---|---|---|---|---|---|
| Terms of termination | Upon expiry of the concession period or early termination upon mutual agreement. | Upon expiry of the concession period or early termination upon mutual agreement or disruption in wastewater treatment operation service that affect public interest and safety. | Upon expiry of the concession period or early termination upon mutual agreement or disruption in wastewater treatment operation service that affect public interest and safety. | Upon expiry of the concession period or early termination upon mutual agreement or disruption in wastewater treatment operation service that affect public interest and safety. | Upon expiry of concession period or in the event of the Group's default, including (amongst others):<br>• asset disposal without permission;<br>• material quality or safety accidents;<br>• cessation of wastewater treatment operation service without permission that affect public interest and safety; or<br>• pledge of assets for borrowings used in projects other than wastewater treatment service under the concession agreement or beyond the concession period. |
| Rights to receive specified assets at the end of the concession period | Infrastructure remained (previously invested by the Group) at the end of the concession period, if any. | Infrastructure remained (previously invested by the Group) at the end of the concession period, if any. | Infrastructure remained (previously invested by the Group) at the end of the concession period, if any. | Infrastructure remained (previously invested by the Group) at the end of the concession period, if any. | Infrastructure remained (previously invested by the Group before the concession agreement entered into on 28 April 2016) at the end of the concession period, if any; if the Group fails to obtain the concession right in the bidding after the expiry of the concession period, such infrastructure will be purchased by Hejiang County Government at a consideration appraised by a third-party appraisal company. Infrastructure invested by the Group after the concession agreement and remained at the end of concession period will be transferred to Hejiang County Government at a consideration appraised by a third-party appraisal company. |
| Terms of renewal | Priority to extend the concession right upon expiration if the Group's performance during the concession period is satisfactory. | Priority to extend the concession right upon expiration under the same conditions as other bidders. | Priority to extend the concession right upon expiration under the same conditions as other bidders. | Priority to extend the concession right upon expiration under the same conditions as other bidders. | Priority to extend the concession right upon expiration under the same conditions as other bidders. |

The Group's and the Company's intangible assets represent operating concession in respect of tap water supply and wastewater treatment service are as follows:

| | THE GROUP | THE COMPANY |
|---|---|---|
| | RMB'000 | RMB'000 |
| **Cost** | | |
| At 1 January 2013 | 382,637 | 263,693 |
| Addition | 100,928 | 67,713 |
| Recognised upon the service concession arrangements established | 36,836 | – |
| At 31 December 2013 | 520,401 | 331,406 |
| Addition | 262,729 | 61,825 |
| At 31 December 2014 | 783,130 | 393,231 |
| Addition | 488,827 | 225,962 |
| Transfer to receivables under service concession arrangements due to additional wastewater treatment volume guaranteed | (98,811) | – |
| At 31 December 2015 | 1,173,146 | 619,193 |
| Addition | 337,604 | 169,186 |
| Transfer to Beijiao Water *(Note 33)* | – | (80,377) |
| Transfer to receivables under service concession arrangements due to additional wastewater treatment volume guaranteed | (389,602) | – |
| At 31 October 2016 | 1,121,148 | 708,002 |
| **Accumulated amortisation** | | |
| At 1 January 2013 | (50,705) | (32,145) |
| Amortisation for the year | (12,462) | (7,930) |
| At 31 December 2013 | (63,167) | (40,075) |
| Amortisation for the year | (17,394) | (10,942) |
| At 31 December 2014 | (80,561) | (51,017) |
| Amortisation for the year | (21,693) | (12,591) |
| At 31 December 2015 | (102,254) | (63,608) |
| Amortisation for the period | (22,180) | (11,160) |
| At 31 October 2016 | (124,434) | (74,768) |
| **Carrying amounts** | | |
| At 31 December 2013 | 457,234 | 291,331 |
| At 31 December 2014 | 702,569 | 342,214 |
| At 31 December 2015 | 1,070,892 | 555,585 |
| At 31 October 2016 | 996,714 | 633,234 |

The intangible assets of the Group and the Company are amortised over the remaining tenure of the relevant service concession arrangements upon commencement of the operation of the concession arrangements.

Included in the intangible assets of the Group as at 31 December 2013, 2014 and 2015 and 31 October 2016 of RMB75.2 million, RMB260.9 million, RMB605.6 million and RMB387.1 million, respectively, are intangible assets recognised under service concession arrangements that have yet to be in operation and have been allocated to individual CGUs in tap water supply and wastewater treatment segments.

The Group engaged an independent valuer, Savills Valuation and Professional Services Limited, to determine the recoverable amounts of the CGUs as at 31 December 2013, 2014 and 2015 and 31 October 2016 based on value in use calculations which use cash flow projections based on financial budgets of these CGUs approved by the Directors covering a five-year period and pre-tax discount rates ranging from 14.6% to 16.3%, from 14.9% to 16.0%, from 15.2% to 16.3% and from 13.7% to 16.8%, respectively. No growth on cash flows of CGUs beyond the five-year period is assumed. Other key assumptions for the value in use calculations relate to the estimation of cash inflows/outflows which include estimated revenue, operating costs, other income and expenses and profit margin, such estimation is based on the current and expected capacity utilisation of the Group's water supply plants and wastewater treatment plants at the current tariff; CGUs' past performance and management's expectation for the forecast growth in usage of tap water from the increase in Luzhou's urban area and population based on the Thirteenth Five-year Plan of Luzhou and the existing government policies, including preferential tax treatment, applicable to the relevant operation. In the opinion of the Directors, these assumptions are realistic and achievable. Based on the above value in use calculations, the Directors determine that there is no impairment of any of its CGUs containing the Group's intangible assets at the end of each of the reporting period.

The Group's receivables under service concession arrangements arose from the minimum wastewater treatment volume guaranteed (being the unconditional right to receive cash from the grantors) in respect of wastewater treatment service concession arrangements are as follows:

**THE GROUP**

| | At 31 December | | | At 31 October |
|---|---|---|---|---|
| | 2013 | 2014 | 2015 | 2016 |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| Non-current portion | 228,746 | 292,031 | 386,007 | 763,820 |
| Current portion | 529 | 2,509 | 4,821 | 10,848 |
| | 229,275 | 294,540 | 390,828 | 774,668 |
| Expected collection schedule is analysed as follows: | | | | |
| Within one year | 529 | 2,509 | 4,821 | 10,848 |
| More than one year, but not exceeding two years | 2,485 | 4,281 | 5,983 | 13,951 |
| More than two years, but not exceeding three years | 3,561 | 4,782 | 6,791 | 16,427 |
| More than three years, but not exceeding four years | 3,801 | 5,073 | 7,374 | 18,070 |
| More than four years, but not exceeding five years | 4,033 | 5,382 | 7,811 | 19,021 |
| Over five years | 214,866 | 272,513 | 358,048 | 696,351 |
| | 229,275 | 294,540 | 390,828 | 774,668 |

The effective rate for the above financial assets fell within the range from 3.51% to 6.00% per annum.

Given (i) the counterparties in the Group's receivables under service concessions arrangements are the local governmental bureau in which the default risk is generally perceived to be low; (ii) there was no default in payments during the Track Record Period; and (iii) the strict enforcement of a sound credit policy by the Group, the Directors consider that there was no objective evidence of impairment during the Track Record Period, as such, there was no impairment in the Group's receivables under service concessions arrangements during the Track Record Period. While the Directors consider the credit risk is minimal, the collection of receivables under services concession arrangements is closely monitored by the Directors in order to minimise any credit risk associated with the receivables.

## 18. PREPAID LEASE PAYMENTS

| | THE GROUP | | | | THE COMPANY | | | |
|---|---|---|---|---|---|---|---|---|
| | At 31 December | | | At 31 October | At 31 December | | | At 31 October |
| | 2013 | 2014 | 2015 | 2016 | 2013 | 2014 | 2015 | 2016 |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| Non-current portion | 53,422 | 78,463 | 77,912 | 78,416 | 13,814 | 10,150 | 12,150 | 11,837 |
| Current portion | 836 | 1,607 | 1,558 | 1,637 | 38 | 168 | 168 | 260 |
| | 54,258 | 80,070 | 79,470 | 80,053 | 13,852 | 10,318 | 12,318 | 12,097 |

The prepaid lease payments of the Group and the Company are held under medium-term leases in the PRC.

## 19. AVAILABLE-FOR-SALE INVESTMENTS

The Group's and the Company's available-for-sale investments represent the following equity investments in unlisted companies in the PRC that do not have quoted market prices in an active market and whose fair values cannot be reliably measured:

**THE GROUP**

| | Ownership interests | At 31 December 2013 | At 31 December 2014 | At 31 December 2015 | At 31 October 2016 |
|---|---|---|---|---|---|
| | | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| **At cost** | | | | | |
| Luzhou Longma Xingda Small-Loan Co., Ltd. | 1.9% | 15,000 | – | – | – |
| Sichuan Xiangjiaba Irrigation Construction and Development Co., Ltd. | 17.5% | 10,506 | 36,771 | 52,530 | 52,530 |
| Others | | 1,100 | 1,100 | 1,100 | 1,100 |
| | | 26,606 | 37,871 | 53,630 | 53,630 |

**THE COMPANY**

| | Ownership interests | At 31 December 2013 | At 31 December 2014 | At 31 December 2015 | At 31 October 2016 |
|---|---|---|---|---|---|
| | | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| **At cost** | | | | | |
| Luzhou Longma Xingda Small-Loan Co., Ltd. | 1.9% | 18,150* | – | – | – |
| Sichuan Xiangjiaba Irrigation Construction and Development Co., Ltd. | 17.5% | 10,506 | 36,771 | 52,530 | 52,530 |
| Others | | 1,100 | 1,100 | 1,100 | 1,100 |
| | | 29,756 | 37,871 | 53,630 | 53,630 |

* Included unrealised profits of RMB3,150,000 arising from acquisition of such investment from subsidiaries.

## 20. DEFERRED INCOME TAX ASSETS AND LIABILITIES

| | THE GROUP | | | | THE COMPANY | | | |
|---|---|---|---|---|---|---|---|---|
| | At 31 December | | | At 31 October | At 31 December | | | At 31 October |
| | 2013 | 2014 | 2015 | 2016 | 2013 | 2014 | 2015 | 2016 |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| Deferred income tax assets | 1,965 | 2,825 | 4,497 | 7,161 | – | 113 | 483 | 179 |
| Deferred income tax liabilities | (4,980) | (5,957) | (10,489) | (11,855) | (142) | – | – | – |
| | (3,015) | (3,132) | (5,992) | (4,694) | (142) | 113 | 483 | 179 |

The movements in deferred income tax assets and liabilities during the Track Record Period, without taking into account the offsetting of balances within the same tax jurisdiction, are as follows:

**THE GROUP**

| | Impairment of trade and other receivables | Provisions | Intangible assets and receivables under service concession arrangements | Revaluation surplus of investment properties | Installation revenue | Others | Total |
|---|---|---|---|---|---|---|---|
| | RMB'000 | RMB'000 | RMB'000 (Note (a)) | RMB'000 | RMB'000 (Note (b)) | RMB'000 | RMB'000 |
| At 1 January 2013 | 250 | 6,959 | (7,522) | – | (2,361) | (1,549) | (4,223) |
| Credit (charge) to profit or loss | 119 | 4,184 | (2,578) | – | (1,063) | 546 | 1,208 |
| At 31 December 2013 | 369 | 11,143 | (10,100) | – | (3,424) | (1,003) | (3,015) |
| (Charge) credit to profit or loss | (18) | 3,219 | (3,191) | – | (759) | 632 | (117) |
| At 31 December 2014 | 351 | 14,362 | (13,291) | – | (4,183) | (371) | (3,132) |
| Credit (charge) to profit or loss | 109 | 4,034 | (3,768) | – | (1,616) | 1,152 | (89) |
| Charge to equity directly | – | – | – | (2,771) | – | – | (2,771) |
| At 31 December 2015 | 460 | 18,396 | (17,059) | (2,771) | (5,799) | 781 | (5,992) |
| Credit (charge) to profit or loss | (1) | 4,666 | (937) | 38 | (2,430) | (38) | 1,298 |
| At 31 October 2016 | 459 | 23,062 | (17,996) | (2,733) | (8,229) | 743 | (4,694) |

**THE COMPANY**

| | Impairment of trade and other receivables | Provisions | Intangible assets and receivables under service concession arrangements | Total |
|---|---|---|---|---|
| | RMB'000 | RMB'000 | RMB'000 (Note (a)) | RMB'000 |
| At 1 January 2013 | 198 | 3,362 | (4,058) | (498) |
| Credit (charge) to profit or loss | 35 | 977 | (656) | 356 |
| At 31 December 2013 | 233 | 4,339 | (4,714) | (142) |
| Credit (charge) to profit or loss | (22) | 704 | (427) | 255 |
| At 31 December 2014 | 211 | 5,043 | (5,141) | 113 |
| Credit (charge) to profit or loss | 80 | 1,284 | (994) | 370 |
| At 31 December 2015 | 291 | 6,327 | (6,135) | 483 |
| Credit (charge) to profit or loss | – | 1,300 | (1,604) | (304) |
| At 31 October 2016 | 291 | 7,627 | (7,739) | 179 |

*Notes:*

(a) The Group's and the Company's intangible assets and receivables under service concession arrangements are recognised upon the Group paying a specific amount for purchasing the relevant infrastructure or derecognition of its existing property, plant and equipment and prepaid lease payments as infrastructure for providing tap water supply and wastewater treatment service under service concession arrangements.

There are temporary differences between the carrying amounts of the intangible assets and receivables under service concession arrangements and the corresponding tax bases (being the net book value of the infrastructure after deducting the accumulated depreciation) used in the computation of taxable profit.

(b) Certain installation revenue of Jiangnan Water and Naxi Water are taxable over 10 years upon such revenue is recognised that gives rise to deferred tax liabilities.

## 21. INVENTORIES

| | THE GROUP | | | | THE COMPANY | | | |
|---|---|---|---|---|---|---|---|---|
| | At 31 December | | | At 31 October | At 31 December | | | At 31 October |
| | 2013 | 2014 | 2015 | 2016 | 2013 | 2014 | 2015 | 2016 |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| Raw materials | 26,923 | 17,625 | 15,887 | 16,219 | 8,508 | 6,487 | 5,958 | 6,763 |
| Consumables | 811 | 1,102 | 1,119 | 1,192 | 676 | 953 | 972 | 1,028 |
| Finished goods | 370 | 397 | 459 | 469 | – | – | – | – |
| | 28,104 | 19,124 | 17,465 | 17,880 | 9,184 | 7,440 | 6,930 | 7,791 |

## 22. AMOUNTS DUE FROM CUSTOMERS FOR CONTRACT WORKS

The Group's and the Company's contract works in respect of tap water supply installation service are analysed as follows:

| | THE GROUP | | | | THE COMPANY | | | |
|---|---|---|---|---|---|---|---|---|
| | At 31 December | | | At 31 October | At 31 December | | | At 31 October |
| | 2013 | 2014 | 2015 | 2016 | 2013 | 2014 | 2015 | 2016 |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| Costs incurred to-date plus recognised profits less recognised losses | 3,637 | 8,046 | 7,696 | 8,290 | 1,190 | 2,712 | 2,586 | 5,461 |
| Analysed for reporting purposes as: | | | | | | | | |
| Amounts due from customers for contract works | 3,637 | 8,046 | 7,696 | 8,290 | 1,190 | 2,712 | 2,586 | 5,461 |

## 23. TRADE RECEIVABLES

| | THE GROUP | | | | THE COMPANY | | | |
|---|---|---|---|---|---|---|---|---|
| | At 31 December | | | At 31 October | At 31 December | | | At 31 October |
| | 2013 | 2014 | 2015 | 2016 | 2013 | 2014 | 2015 | 2016 |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| Trade receivables | 59,467 | 69,664 | 72,746 | 145,030 | 8,616 | 11,542 | 15,540 | 23,252 |
| Less: Impairment | (1,034) | (911) | (1,420) | (1,420) | (662) | (577) | (1,014) | (1,014) |
| | 58,433 | 68,753 | 71,326 | 143,610 | 7,954 | 10,965 | 14,526 | 22,238 |

Included in the Company's trade receivables are amounts of RMB85,000, Nil, RMB340,000 and RMB280,000 due from subsidiaries as at 31 December 2013, 2014 and 2015 and 31 October 2016, respectively, that are unsecured, interest-free and are repayable on demand.

Users of tap water supply are required to settle their water fees within one month upon consumption of water. The Group generally grants credit period of 3 months to its wastewater treatment customers.

The following is an analysis of trade receivables by age, presented based on the respective revenue recognition dates, net of allowance for doubtful debts:

| | THE GROUP | | | | THE COMPANY | | | |
|---|---|---|---|---|---|---|---|---|
| | At 31 December | | | At 31 October | At 31 December | | | At 31 October |
| | 2013 | 2014 | 2015 | 2016 | 2013 | 2014 | 2015 | 2016 |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| Within 3 months | 52,961 | 31,582 | 54,274 | 95,221 | 7,718 | 10,729 | 14,466 | 19,561 |
| Between 4 months and 6 months | 4,196 | 14,457 | 8,294 | 19,922 | – | – | 60 | 2,677 |
| Between 7 months and 12 months | 561 | 21,920 | 1,256 | 21,026 | – | – | – | – |
| Over 1 year | 715 | 794 | 7,502 | 7,441 | 236 | 236 | – | – |
| | 58,433 | 68,753 | 71,326 | 143,610 | 7,954 | 10,965 | 14,526 | 22,238 |

Trade receivables disclosed below are past due at the end of each reporting period for which the Group has not recognised an allowance for doubtful debts because, based on past experience, the Directors are of the opinion that there has not been a significant change in credit quality and the balances are still considered fully recoverable.

Age of trade receivables that are past due but not impaired is analysed as follows:

| | THE GROUP | | | | THE COMPANY | | | |
|---|---|---|---|---|---|---|---|---|
| | At 31 December | | | At 31 October | At 31 December | | | At 31 October |
| | 2013 | 2014 | 2015 | 2016 | 2013 | 2014 | 2015 | 2016 |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| Overdue by: | | | | | | | | |
| Within 3 months | 4,264 | 16,068 | 10,839 | 24,907 | 68 | 1,611 | 2,605 | 2,818 |
| Between 4 months and 6 months | 286 | 21,145 | 1,249 | 1,042 | – | – | – | – |
| Between 7 months and 12 months | 990 | 1,185 | 7 | 21,036 | 236 | 236 | – | – |
| Over 1 year | – | 384 | 7,502 | 7,441 | – | – | – | – |
| | 5,540 | 38,782 | 19,597 | 54,426 | 304 | 1,847 | 2,605 | 2,818 |

Movements of the Group's and the Company's provision for impairment of trade receivables during the Track Record Period are as follows:

| | THE GROUP | | | | THE COMPANY | | | |
|---|---|---|---|---|---|---|---|---|
| | At 31 December | | | At 31 October | At 31 December | | | At 31 October |
| | 2013 | 2014 | 2015 | 2016 | 2013 | 2014 | 2015 | 2016 |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| At beginning of the year/period | 841 | 1,034 | 911 | 1,420 | 685 | 662 | 577 | 1,014 |
| Provided during the year/period | 193 | – | 509 | – | – | – | 437 | – |
| Reversal of impairment during the year/period | – | (123) | – | – | (23) | (85) | – | – |
| At end of the year/period | 1,034 | 911 | 1,420 | 1,420 | 662 | 577 | 1,014 | 1,014 |

The maximum exposure to credit risk at the reporting date is the carrying value of each class of trade receivables mentioned above.

In determining the recoverability of a trade receivable, the Group considers any change in the credit quality of the trade receivable from the date of credit initially granted up to the end of each reporting period.

The impairment recognised represents the difference between the carrying amount of these trade receivables and the present value of the expected proceeds could be recovered. The Group does not hold any collateral over these balances.

**24. PREPAYMENTS AND OTHER RECEIVABLES**

| | THE GROUP | | | | THE COMPANY | | | |
|---|---|---|---|---|---|---|---|---|
| | At 31 December | | | At 31 October | At 31 December | | | At 31 October |
| | 2013 | 2014 | 2015 | 2016 | 2013 | 2014 | 2015 | 2016 |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| Prepayments for inventories | 530 | 1,820 | 1,333 | 2,109 | 7 | 144 | 17 | 269 |
| Prepayments for prepaid lease payments | – | – | 4,000 | 4,000 | – | – | 4,000 | 4,000 |
| Due from the immediate holding company of the Company | 5,020 | 20 | 20 | 38 | 3,520 | 20 | 20 | 38 |
| Due from subsidiaries | – | – | – | – | 66,161 | 52,957 | 19,736 | 49,517 |
| Other receivables | 10,031 | 9,872 | 14,146 | 9,537 | 2,722 | 3,063 | 5,972 | 4,718 |
| Deferred listing expenses | – | – | 2,200 | 17,771 | – | – | 2,200 | 17,771 |
| Less: Impairment | (1,351) | (1,301) | (1,507) | (1,451) | (889) | (827) | (926) | (926) |
| | 14,230 | 10,411 | 20,192 | 32,004 | 71,521 | 55,357 | 31,019 | 75,387 |
| Less: Amount classified as non-current assets | – | – | (4,000) | (4,000) | – | – | (4,000) | (4,000) |
| Current asset | 14,230 | 10,411 | 16,192 | 28,004 | 71,521 | 55,357 | 27,019 | 71,387 |

Other receivables mainly include various receivables from governmental bureau for certain construction projects incurred on their behalf and various deposits paid.

The amount due from the immediate holding company of the Company is unsecured, interest-free and is repayable on demand. The amount was non-trade in nature and was settled in February 2017.

Included in the amounts due from subsidiaries are unsecured borrowings of RMB10,991,000, RMB28,208,000, RMB15,426,000 and RMB45,535,000 as at 31 December 2013, 2014 and 2015 and 31 October 2016, respectively, which bear interest at rates at 0.87% per annum, ranging from 0.87% to 8.57% per annum, ranging from 0.87% to 8.87% per annum and ranging from 4.87% to 5.68% per annum and are repayable within one year from the end of each reporting period. The remaining amounts due from subsidiaries are unsecured, interest-free and have no fixed terms of repayment.

Movements of the Group's and the Company's provision for impairment of other receivables during the Track Record Period are as follows:

| | THE GROUP | | | | THE COMPANY | | | |
|---|---|---|---|---|---|---|---|---|
| | At 31 December | | | At 31 October | At 31 December | | | At 31 October |
| | 2013 | 2014 | 2015 | 2016 | 2013 | 2014 | 2015 | 2016 |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| At the beginning of the year/period | 953 | 1,351 | 1,301 | 1,507 | 638 | 889 | 827 | 926 |
| Provided during the year/period | 398 | – | 206 | – | 251 | – | 99 | – |
| Reversal of impairment during the year/period | – | (50) | – | (56) | – | (62) | – | – |
| At end of the year/period | 1,351 | 1,301 | 1,507 | 1,451 | 889 | 827 | 926 | 926 |

## 25. BANK BALANCES AND CASH

### THE GROUP AND THE COMPANY

Bank balances as at 31 December 2013, 2014 and 2015 and 31 October 2016 carry interest at rates ranging from 0.30% to 1.27% per annum, from 0.30% to 1.35% per annum, from 0.30% to 1.00% per annum and from 0.30% to 1.00% per annum, respectively.

## 26. BORROWINGS

| | THE GROUP | | | | THE COMPANY | | | |
|---|---|---|---|---|---|---|---|---|
| | At 31 December | | | At 31 October | At 31 December | | | At 31 October |
| | 2013 | 2014 | 2015 | 2016 | 2013 | 2014 | 2015 | 2016 |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| Unsecured bank borrowings without corporate guarantee *(Note (a))* | – | – | 130,000 | 220,000 | – | – | 130,000 | 220,000 |
| Unsecured bank borrowing with corporate guarantee *(Note (b))* | – | – | 100,000 | 170,000 | – | – | – | – |
| Secured bank borrowings *(Note (c))* | – | – | 134,000 | 134,000 | | | | |
| Unsecured other borrowing *(Note (d))* | 9,164 | 7,914 | 6,920 | 5,283 | 9,164 | 7,914 | 6,920 | 5,283 |
| Unsecured other borrowing with corporate guarantee *(Note (e))* | – | – | – | 66,000 | – | – | – | 66,000 |
| Unsecured borrowings from the immediate holding company of the Company *(Note (f))* | 69,900 | 349,400 | 120,000 | – | – | 97,000 | – | – |
| Unsecured borrowing from a shareholder *(Note (g))* | 35,600 | 32,000 | – | – | – | – | – | – |
| | 114,664 | 389,314 | 490,920 | 595,283 | 9,164 | 104,914 | 136,920 | 291,283 |
| Carrying amount repayable: | | | | | | | | |
| Within one year or on demand | 74,749 | 354,895 | 251,412 | 303,674 | 1,250 | 97,994 | 131,412 | 221,174 |
| More than one year, but not exceeding two years | 5,495 | 5,912 | 29,724 | 43,674 | 994 | 1,412 | 1,224 | 1,174 |
| More than two years, but not more than five years | 23,360 | 26,672 | 120,172 | 104,935 | 3,860 | 3,672 | 3,672 | 2,935 |
| More than five years | 11,060 | 1,835 | 89,612 | 143,000 | 3,060 | 1,836 | 612 | 66,000 |
| | 114,664 | 389,314 | 490,920 | 595,283 | 9,164 | 104,914 | 136,920 | 291,283 |
| Less: Amount shown under current liabilities | (74,749) | (354,895) | (251,412) | (303,674) | (1,250) | (97,994) | (131,412) | (221,174) |
| Non-current portion | 39,915 | 34,419 | 239,508 | 291,609 | 7,914 | 6,920 | 5,508 | 70,109 |
| Total borrowings: | | | | | | | | |
| – At fixed rate | 69,900 | 349,400 | 140,000 | 96,000 | – | 97,000 | 20,000 | 66,000 |
| – At floating rate | 44,764 | 39,914 | 350,920 | 499,283 | 9,164 | 7,914 | 116,920 | 225,283 |
| | 114,664 | 389,314 | 490,920 | 595,283 | 9,164 | 104,914 | 136,920 | 291,283 |

*Notes:*

(a) As at 31 December 2015, included in the unsecured bank borrowings is a bank borrowing of RMB20,000,000 bearing interest at fixed rate of 4.83% per annum, the remaining unsecured bank borrowings bear interest at floating rates ranging from 4.57% to 5.36% per annum. These unsecured bank borrowings are repayable from May 2016 to December 2016.

As at 31 October 2016, the unsecured bank borrowings bear interest at a floating rate at 4.57% per annum. These bank borrowings are repayable from December 2016 to August 2017.

(b) (i) As at 31 December 2015, the unsecured bank borrowing bears interest at floating rate of 5.64% per annum and its repayment is jointly guaranteed by the Company and its immediate holding company at nil consideration. The unsecured bank borrowing is repayable by installments from June 2017 to December 2021.

(ii) As at 31 October 2016, included in the unsecured bank borrowings are bank borrowings of RMB30,000,000 and RMB40,000,000 bearing interest at a fixed rate of 4.57% per annum and at a floating rate of 4.57% per annum, respectively, repayable before 30 June 2017 and their repayment are guaranteed by the Company at nil consideration, the remaining unsecured bank borrowings represent a bank borrowing with details set out in note (b) (i) above.

(c) The bank borrowings are secured by the Group's charging right for certain wastewater treatment fees and bear interest at a floating rate of 4.90% per annum. The repayment of these bank borrowings are guaranteed by the Company's immediate holding company at nil consideration. These secured bank borrowings are repayable by installments from December 2017 to December 2030.

(d) The other borrowing represents a borrowing from The World Bank for financing the Group's construction of tap water supply infrastructure that bears interest at floating rates ranging from 0.84% to 1.47% per annum and is repayable by installments till August 2021.

(e) As at 31 October 2016, the other borrowing represent a borrowing from China Agriculture Development Key Construction Fund Co., Ltd., which bears interest at a fixed rate of 1.2% per annum and is repayable in June 2031, to finance a tap water supply project of the Group. The repayment of the borrowing is guaranteed by Luzhou Xing Yang Investment Group Limited, a state-owned enterprise.

(f) As at 31 December 2013, the unsecured borrowings from the immediate holding company of the Company were interest-free and repaid in full in 2014.

As at 31 December 2014, included in the unsecured borrowings from the immediate holding company of the Company was an interest-free unsecured borrowing of RMB7,000,000, the remaining unsecured borrowings bore interest at fixed rates ranging from 6.33% to 9.29% per annum. These unsecured borrowings from the immediate holding company of the Company were fully repaid in 2015.

As at 31 December 2015, the unsecured borrowing from the immediate holding company of the Company bore interest at fixed rate of 8.20% per annum and was fully repaid in April 2016.

(g) The unsecured borrowings from a shareholder of the Company, 瀘州市基礎建設投資有限公司 (Luzhou Infrastructure Investment Co., Ltd., "Luzhou Infrastructure Investment"), bear interest at lending benchmark interest rate quoted by The People's Bank of China ranging from 5.15% to 7.05% per annum and is repayable by instalments till 28 August 2019. The unsecured borrowings were early repaid in full in 2015.

(h) As at 31 October 2016, the Group had undrawn banking facilities amounting to RMB411 million which is repayable by installments upon drawn down dates to December 2030.

**27. TRADE PAYABLES**

The following is an analysis of trade payables by age based on the invoice date:

| | THE GROUP | | | | THE COMPANY | | | |
|---|---|---|---|---|---|---|---|---|
| | At 31 December | | | At 31 October | At 31 December | | | At 31 October |
| | 2013 | 2014 | 2015 | 2016 | 2013 | 2014 | 2015 | 2016 |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| Within 6 months | 10,882 | 5,926 | 4,027 | 6,809 | 26,080 | 6,817 | 3,693 | 10,359 |
| Between 7 months and 12 months | 84 | 1,157 | 76 | 1,122 | 12 | 9,670 | 43 | 465 |
| Over 1 year | 1,039 | 1,248 | 1,210 | 3,006 | 532 | 3,622 | – | 2,507 |
| | 12,005 | 8,331 | 5,313 | 10,937 | 26,624 | 20,109 | 3,736 | 13,331 |

The credit period on purchases are generally within 6 months.

Included in the Company's trade payables are amounts of RMB21,256,000, RMB16,400,000, RMB1,410,000 and RMB5,816,000 due to subsidiaries as at 31 December 2013, 2014 and 2015 and 31 October 2016, respectively, that are unsecured, interest-free and are repayable on demand.

**28. ADVANCES FROM CUSTOMERS AND OTHER PAYABLES**

| | THE GROUP | | | | THE COMPANY | | | |
|---|---|---|---|---|---|---|---|---|
| | At 31 December | | | At 31 October | At 31 December | | | At 31 October |
| | 2013 | 2014 | 2015 | 2016 | 2013 | 2014 | 2015 | 2016 |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| Advances from customers | 34,434 | 27,922 | 32,678 | 29,061 | 20,892 | 16,782 | 19,472 | 20,418 |
| Wages and welfare payable | 20,165 | 21,246 | 18,649 | 16,867 | 16,815 | 16,723 | 12,736 | 9,946 |
| Other taxes payable | 3,688 | 1,514 | 6,000 | 9,888 | 1,682 | 869 | 1,272 | 1,176 |
| Interest payable | 1,721 | 10 | – | – | – | – | – | – |
| Dividends payable to immediate holding company of the Company | 85,383 | – | 315 | – | 85,383 | – | – | – |
| Dividends payable to Luzhou Infrastructure Investment | 1,704 | – | – | – | 1,704 | – | – | – |
| Dividends payable to non-controlling shareholders of subsidiaries | 11,112 | 9,562 | 11 | – | – | – | – | – |
| Due to fellow subsidiaries | 294 | 439 | 864 | – | – | – | – | – |
| Due to immediate holding company of the Company | – | 10 | – | – | – | – | – | – |
| Construction payables and deposits received | 18,859 | 39,885 | 99,097 | 182,258 | 740 | 2,715 | 14,388 | 82,640 |
| Payables for purchases of wastewater treatment plants | 12,656 | 12,386 | 12,386 | 9,386 | – | – | – | – |
| Listing expenses payable | – | – | – | 9,047 | – | – | – | 9,047 |
| Payables to governmental bureau | 33,366 | 39,272 | 36,489 | 41,252 | 4,827 | 8,312 | 5,504 | 6,285 |
| Other payables | 7,386 | 8,820 | 12,213 | 12,322 | 3,270 | 3,642 | 5,284 | 6,183 |
| Due to subsidiaries | – | – | – | – | 12,230 | 21,569 | 12,683 | 27,178 |
| | 230,768 | 161,066 | 218,702 | 310,081 | 147,543 | 70,612 | 71,339 | 162,873 |

The above amounts due to the immediate holding company of the Company, fellow subsidiaries, Luzhou Infrastructure Investment, non-controlling shareholders of subsidiaries and subsidiaries of the Company are unsecured, interest-free and repayable on demand.

## 29. DEFERRED REVENUE

The deferred revenue represents government subsidies granted to the Group and the Company for subsidising its construction projects, amongst others, including wastewater treatment plants, tap water supply network, etc.

## 30. PROVISIONS

| | THE GROUP | | | | THE COMPANY | | | |
|---|---|---|---|---|---|---|---|---|
| | At 31 December | | | At 31 October | At 31 December | | | At 31 October |
| | 2013 | 2014 | 2015 | 2016 | 2013 | 2014 | 2015 | 2016 |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| At beginning of the year/ period | 27,834 | 44,570 | 57,447 | 73,582 | 13,446 | 17,356 | 20,171 | 25,309 |
| Provisions recognised | 25,622 | 25,376 | 27,415 | 40,946 | 4,154 | 4,357 | 5,231 | 12,509 |
| Unwinding of discount and effect of change in the discount rates | 1,823 | 2,741 | 2,815 | 3,005 | 880 | 1,067 | 988 | 1,034 |
| Payments | (10,709) | (15,240) | (14,095) | (8,866) | (1,124) | (2,609) | (1,081) | (8,343) |
| At end of the year/period | 44,570 | 57,447 | 73,582 | 108,667 | 17,356 | 20,171 | 25,309 | 30,509 |
| Less: Amount classified as current liabilities | (15,241) | (14,096) | (10,639) | (15,320) | (2,609) | (1,080) | (10,012) | (13,375) |
| Non-current portion | 29,329 | 43,351 | 62,943 | 93,347 | 14,747 | 19,091 | 15,297 | 17,134 |

Pursuant to the service concession agreements entered into by the Group, the Group has the contractual obligations to maintain the facilities to specified level of serviceability and/or to restore the plants to a specified condition during 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 IAS 37 at the best estimate of the expenditure that would be required to settle the present obligation at the end of each of the Track Record Period. The applicable discount rates as at 31 December 2013, 2014 and 2015 and 31 October 2016 are 6.55% per annum, 6.15% per annum, 4.90% per annum and 4.90% per annum, respectively.

## 31. PAID-IN CAPITAL/SHARE CAPITAL AND RESERVES OF THE COMPANY

### THE GROUP AND THE COMPANY

| | At 31 December | | | At 31 October |
|---|---|---|---|---|
| | 2013 | 2014 | 2015 | 2016 |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| At beginning of the year/period | 184,896 | 184,896 | 248,286 | 600,000 |
| Reduction of registered capital due to the Division *(Note (a))* | – | (500) | – | – |
| Capital injections *(Note (b))* | – | 63,890 | 30,424 | 64,310 |
| Conversion into a joint stock company *(Note (c))* | – | – | 321,290 | – |
| At end of the year/period | 184,896 | 248,286 | 600,000 | 664,310 |

*Notes:*

(a) Pursuant to a resolution of equity holders meeting of the Company on 30 June 2014, the Company reduced its paid-in capital by RMB500,000, from RMB184,896,000 to RMB184,396,000, for the paid-in capital of a newly established company (瀘州市興瀘資產管理有限公司 ("Luzhou Assets Management")) by division (the "Division") that was duly completed in September 2014. The Company, as a continuing entity, is responsible for all its liabilities before the Division and their repayments were also guaranteed by Luzhou Assets Management under the relevant laws and regulations of the PRC.

(b) In December 2014 and January 2015, the immediate holding company of the Company and a shareholder of the Company, 瀘州老窖集團有限責任公司 ("Luzhou Lao Jiao"), made cash contributions of RMB210,000,000 and RMB100,000,000, respectively, of which, RMB63,890,000 and RMB30,424,000 were credited as paid-in capital of the Company with the remainder credited to capital reserve of the Company.

In July 2015, the immediate holding company of the Company, Luzhou Infrastructure Investment and Luzhou Lao Jiao, shareholders of the Company, made cash contribution of RMB173,980,000, RMB21,624,000 and RMB2,420,000, respectively, which were fully credited to capital reserve of the Company.

In May 2016, 57,290,000 and 7,020,000 new ordinary shares were issued at RMB2.077 to Luzhou Infrastructure Investment and Luzhou Lao Jiao, respectively, of which, RMB64,310,000 and RMB69,270,000 were credited as fully paid-up share capital of the Company and capital reserve of the Company, respectively.

(c) On 25 December 2015, the Company was converted from a limited liability company into a joint stock limited liability company with a registered capital of RMB600,000,000. The Company issued and allotted 600,000,000 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 capitals to the Company as at 25 December 2015.

**RESERVES OF THE COMPANY**

| | Capital reserve | Statutory surplus reserve | Retained profits | Total |
|---|---|---|---|---|
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| At 1 January 2013 | 61,237 | 10,754 | 154,486 | 226,477 |
| Profit and total comprehensive income for the year | – | – | 48,794 | 48,794 |
| Appropriation for the year | – | 4,179 | (4,179) | – |
| Transfer from retained profits | 1,000 | – | (1,000) | – |
| Dividend declared | – | – | (92,086) | (92,086) |
| At 31 December 2013 | 62,237 | 14,933 | 106,015 | 183,185 |
| Profit and total comprehensive income for the year | – | – | 100,856 | 100,856 |
| Appropriation for the year | – | 8,938 | (8,938) | – |
| Capital contribution by a shareholder | 146,110 | – | – | 146,110 |
| Deemed distribution | (53,775) | – | – | (53,775) |
| Dividend declared | – | – | (83,332) | (83,332) |
| At 31 December 2014 | 154,572 | 23,871 | 114,601 | 293,044 |
| Profit and total comprehensive income for the year | – | – | 77,636 | 77,636 |
| Appropriation for the year | – | 6,088 | (6,088) | – |
| Capital contribution by shareholders | 267,600 | – | – | 267,600 |
| Dividend declared | – | – | (12,176) | (12,176) |
| Conversion into a joint stock company | (255,866) | (28,002) | (37,422) | (321,290) |
| At 31 December 2015 | 166,306 | 1,957 | 136,551 | 304,814 |
| Profit and total comprehensive income for the period | – | – | 39,602 | 39,602 |
| Capital contribution by shareholders | 69,270 | – | – | 69,270 |
| At 31 October 2016 | 235,576 | 1,957 | 176,153 | 413,686 |

| | Capital reserve | Statutory surplus reserve | Retained profits | Total |
|---|---|---|---|---|
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| **(Unaudited)** | | | | |
| As at 1 January 2015 | 154,572 | 23,871 | 114,601 | 293,044 |
| Profit and total comprehensive income for the period | – | – | 46,233 | 46,233 |
| Capital contribution by shareholders | 267,600 | – | – | 267,600 |
| Dividend declared | – | – | (12,176) | (12,176) |
| At 31 October 2015 | 422,172 | 23,871 | 148,658 | 594,701 |

### 32. DEEMED DISTRIBUTION

Pursuant to a resolution of equity holders meeting of the Company on 30 June 2014 and approval of Luzhou SASAC in June 2014, the Company carved out its non-core assets to Luzhou Assets Management (which was held by the immediate holding company of the Company and Luzhou Infrastructure Investment as to 98.15% and 1.85%, respectively) as part of the Division without consideration that has been accounted for as deemed distribution and no gain or loss has been recognised. The Company's non-core assets include its entire 64.00% of equity interest in Zhongyuan Water Purification Material, entire 62.25% of equity interest in Luzhou Zhongshan Swimming, entire 1.9% of equity interest in Luzhou Longma Xingda Small-Loan Co., Ltd. (as included in the available-for-sale investments) and certain buildings, prepaid lease payments and investment properties.

Analysis of assets and liabilities at the completion date of the deemed disposal (June 2014) over which control was lost:

| | RMB'000 |
|---|---|
| Property, plant and equipment | 19,796 |
| Investment properties | 6,828 |
| Prepaid lease payments | 8,782 |
| Available-for-sale investments | 15,000 |
| Trade and other receivables | 86 |
| Bank balances and cash | 1,386 |
| Trade and other payables | (38) |
| Less: Non-controlling interests | (1,059) |
| Net assets attributable to the equity owners of the Group | 50,781 |

Net cash outflow arising from the deemed disposal was RMB1,386,000.

### 33. INVESTMENTS IN SUBSIDIARIES

**THE COMPANY**

| | At 31 December | | | At 31 October |
|---|---|---|---|---|
| | 2013 | 2014 | 2015 | 2016 |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| Unlisted investments in subsidiaries, at cost | 109,262 | 205,349 | 382,212 | 542,949 |

The table below shows details of non-wholly owned subsidiaries of the Company that have material non-controlling interests:

| Name of subsidiary | Proportion ownership interest held by non-controlling interests | | | | Profit (loss) allocated to non-controlling interests | | | | | Accumulated non-controlling interests | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | At 31 December | | | At 31 October | Year ended 31 December | | | Ten months ended 31 October | | At 31 December | | | At 31 October |
| | 2013 | 2014 | 2015 | 2016 | 2013 | 2014 | 2015 | 2015 | 2016 | 2013 | 2014 | 2015 | 2016 |
| | % | % | % | % | RMB'000 | RMB'000 | RMB'000 | RMB'000 (Unaudited) | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| Beijiao Water | 36.23 | 35.93 | 35.31 | 13.22 | 4,080 | 3,785 | 3,031 | 3,395 | 24 | 11,501 | 12,358 | 13,615 | 15,577 |
| Hejiang Water | 14.07 | 14.07 | 14.07 | 14.07 | 1,280 | 1,071 | 1,200 | 1,004 | 1,168 | 2,957 | 3,020 | 4,124 | 5,292 |
| Jiangnan Water | 50.95 | 50.70 | 50.04 | 50.04 | 6,106 | 8,827 | 7,928 | 8,056 | 8,260 | 13,950 | 17,372 | 24,962 | 33,222 |
| Naxi Water | 23.50 | 23.50 | 23.36 | 23.36 | 1,486 | 236 | 411 | 222 | 417 | 4,549 | 4,632 | 5,015 | 5,432 |
| Nanjiao Water | 56.62 | 55.25 | 54.21 | 54.21 | 249 | 237 | 322 | 123 | 527 | 6,527 | 6,535 | 6,605 | 7,133 |
| Xinglu Wastewater Treatment | 2.00 | 2.00 | 2.00 | 2.00 | 510 | 817 | 1,015 | 870 | 1,094 | 1,951 | 3,802 | 8,102 | 10,836 |
| Individually immaterial subsidiaries with non-controlling interests | | | | | 348 | 173 | 99 | (134) | 1,951 | 2,453 | 1,458 | 1,453 | 3,289 |
| | | | | | 14,059 | 15,146 | 14,006 | 13,536 | 13,441 | 43,888 | 49,177 | 63,876 | 80,781 |

**Changes in ownership interest in subsidiaries**

In 2016, the Company acquired additional 22.09% of equity interest in Beijiao Water from non-controlling interests by transferring certain tap water supply infrastructure (included in the Company's intangible assets with carrying amount of RMB80,377,000) to Beijiao Water.

In 2015, the Company acquired additional equity interests in the following subsidiaries from non-controlling interests:

- 0.62% of equity interest in Beijiao Water for a total cash consideration of RMB176,000.
- 0.66% of equity interest in Jiangnan Water for a total cash consideration of RMB148,000.
- 0.14% of equity interest in Naxi Water for a total cash consideration of RMB15,000.
- 1.04% of equity interest in Nanjiao Water for a total cash consideration of RMB119,000.
- 1.00% of equity interest in Sitong Design for a total cash consideration of RMB5,000.

In 2014, the Company acquired additional equity interests in the following subsidiaries from non-controlling interests:

- 0.30% of equity interest in Beijiao Water for a total cash consideration of RMB69,000.
- 0.25% of equity interest in Jiangnan Water for a total cash consideration of RMB40,000.
- 1.37% of equity interest in Nanjiao Water for a total cash consideration of RMB156,000.
- 0.40% of equity interest in Sitong Design for a total cash consideration of RMB3,000.

In 2014, the Company disposed of its entire equity interests in the following subsidiaries as a result of the Deemed Distribution (see Note 32):

- 64.00% of equity interest in Luzhou Zhongyuan Purification Material.
- 62.25% of equity interest in Luzhou Zhongshan Swimming.

Summarised financial information in respect of each of the Group's subsidiaries that have material non-controlling interests is set out below. The summarised financial information below represents amounts before intra-group eliminations.

**Beijiao Water**

| | At 31 December | | | At 31 October |
|---|---|---|---|---|
| | 2013 | 2014 | 2015 | 2016 |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| Current assets | 24,757 | 21,363 | 5,983 | 9,010 |
| Non-current assets | 33,077 | 40,985 | 39,027 | 118,256 |
| Current liabilities | 24,463 | 26,865 | 4,470 | 7,880 |
| Non-current liabilities | 1,628 | 1,090 | 1,982 | 1,557 |
| Equity attributable to owners of the Company | 20,242 | 22,035 | 24,943 | 102,252 |
| Non-controlling interests | 11,501 | 12,358 | 13,615 | 15,577 |

| | Year ended 31 December | | | Ten months ended 31 October | |
|---|---|---|---|---|---|
| | 2013 | 2014 | 2015 | 2015 | 2016 |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 (Unaudited) | RMB'000 |
| Revenue | 34,639 | 40,056 | 36,702 | 32,538 | 31,804 |
| Expenses | (23,376) | (29,523) | (28,118) | (23,085) | (32,910) |
| Profit (loss) for the year/period | 11,263 | 10,533 | 8,584 | 9,453 | (1,106) |
| Profit (loss) and total comprehensive income (expense) attributable to owners of the Company | 7,183 | 6,748 | 5,553 | 6,058 | (1,130) |
| Profit (loss) and total comprehensive income (expense) attributable to non-controlling interests | 4,080 | 3,785 | 3,031 | 3,395 | 24 |
| Capital contribution by the Company | – | – | – | – | 80,377 |
| Dividends declared to non-controlling interests | 5,415 | 2,856 | 1,588 | 1,588 | – |
| Net cash inflow from operating activities | 6,554 | 11,110 | 24,203 | 15,793 | 4,692 |
| Net cash outflow from investing activities | (269) | (1,613) | (154) | – | (989) |
| Net cash outflow from financing activities | (4,199) | (7,232) | (24,716) | (10,811) | (3,000) |
| Net cash inflow (outflow) | 2,086 | 2,265 | (667) | 4,982 | 703 |

**Hejiang Water**

| | At 31 December | | | At 31 October |
|---|---|---|---|---|
| | **2013** | **2014** | **2015** | **2016** |
| | **RMB'000** | **RMB'000** | **RMB'000** | **RMB'000** |
| Current assets | 35,876 | 32,422 | 31,511 | 35,690 |
| Non-current assets | 32,225 | 35,035 | 35,146 | 40,876 |
| Current liabilities | 33,404 | 33,909 | 21,445 | 22,567 |
| Non-current liabilities | 13,681 | 12,087 | 15,900 | 16,385 |
| Equity attributable to owners of the Company | 18,059 | 18,441 | 25,188 | 32,322 |
| Non-controlling interests | 2,957 | 3,020 | 4,124 | 5,292 |

| | Year ended 31 December | | | Ten months ended 31 October | |
|---|---|---|---|---|---|
| | **2013** | **2014** | **2015** | **2015** | **2016** |
| | **RMB'000** | **RMB'000** | **RMB'000** | **RMB'000 (Unaudited)** | **RMB'000** |
| Revenue | 27,028 | 26,279 | 28,526 | 23,598 | 33,443 |
| Expenses | (17,930) | (18,667) | (19,997) | (16,464) | (25,141) |
| Profit for the year/period | 9,098 | 7,612 | 8,529 | 7,134 | 8,302 |
| Profit and total comprehensive income attributable to owners of the Company | 7,818 | 6,541 | 7,329 | 6,130 | 7,134 |
| Profit and total comprehensive income attributable to non-controlling interests | 1,280 | 1,071 | 1,200 | 1,004 | 1,168 |
| Dividends declared to non-controlling interests | 1,066 | 1,008 | 96 | 96 | – |
| Net cash inflow from operating activities | 9,258 | 8,776 | 2,212 | 2,984 | 7,390 |
| Net cash inflow (outflow) from investing activities | 744 | (9,212) | 1,043 | 1,383 | (2,214) |
| Net cash outflow from financing activities | (646) | (9,903) | (6,266) | (8,887) | – |
| Net cash inflow (outflow) | 9,356 | (10,339) | (3,011) | (4,520) | 5,176 |

**Jiangnan Water**

| | At 31 December | | | At 31 October |
|---|---|---|---|---|
| | 2013 | 2014 | 2015 | 2016 |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| Current assets | 33,147 | 22,314 | 28,706 | 43,320 |
| Non-current assets | 40,173 | 69,330 | 69,917 | 70,500 |
| Current liabilities | 42,936 | 53,387 | 42,757 | 38,243 |
| Non-current liabilities | 3,003 | 3,993 | 5,982 | 9,186 |
| Equity attributable to owners of the Company | 13,431 | 16,892 | 24,922 | 33,169 |
| Non-controlling interests | 13,950 | 17,372 | 24,962 | 33,222 |

| | Year ended 31 December | | | Ten months ended 31 October | |
|---|---|---|---|---|---|
| | 2013 | 2014 | 2015 | 2015 | 2016 |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 (Unaudited) | RMB'000 |
| Revenue | 39,154 | 68,788 | 45,872 | 39,900 | 41,826 |
| Expenses | (27,170) | (51,378) | (30,028) | (24,010) | (25,319) |
| Profit for the year/period | 11,984 | 17,410 | 15,844 | 15,890 | 16,507 |
| Profit and total comprehensive income attributable to owners of the Company | 5,878 | 8,583 | 7,916 | 7,834 | 8,247 |
| Profit and total comprehensive income attributable to non-controlling interests | 6,106 | 8,827 | 7,928 | 8,056 | 8,260 |
| Dividends declared to non-controlling interests | 5,519 | 5,363 | 114 | 114 | – |
| Net cash inflow from operating activities | 11,443 | 6,598 | 22,741 | 20,756 | 18,401 |
| Net cash inflow (outflow) from investing activities | 3,139 | (2,320) | (1,239) | (3,539) | (3,100) |
| Net cash outflow from financing activities | (11,043) | (13,308) | (6,110) | (7,250) | (14,887) |
| Net cash inflow (outflow) | 3,539 | (9,030) | 15,392 | 9,967 | 414 |

**Naxi Water**

| | At 31 December | | | At 31 October |
|---|---|---|---|---|
| | 2013 | 2014 | 2015 | 2016 |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| Current assets | 7,628 | 9,390 | 8,293 | 11,730 |
| Non-current assets | 32,088 | 34,118 | 37,214 | 39,121 |
| Current liabilities | 17,622 | 20,881 | 20,783 | 23,818 |
| Non-current liabilities | 2,737 | 2,915 | 3,254 | 3,779 |
| Equity attributable to owners of the Company | 14,808 | 15,080 | 16,455 | 17,822 |
| Non-controlling interests | 4,549 | 4,632 | 5,015 | 5,432 |

| | Year ended 31 December | | | Ten months ended 31 October | |
|---|---|---|---|---|---|
| | 2013 | 2014 | 2015 | 2015 | 2016 |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 (Unaudited) | RMB'000 |
| Revenue | 26,046 | 17,916 | 23,367 | 18,056 | 21,041 |
| Expenses | (19,722) | (16,910) | (21,609) | (17,113) | (19,257) |
| Profit for the year/period | 6,324 | 1,006 | 1,758 | 943 | 1,784 |
| Profit and total comprehensive income attributable to owners of the Company | 4,838 | 770 | 1,347 | 721 | 1,367 |
| Profit and total comprehensive income attributable to non-controlling interests | 1,486 | 236 | 411 | 222 | 417 |
| Dividends declared to non-controlling interests | 390 | 153 | – | – | – |
| Net cash inflow from operating activities | 4,114 | 953 | 3,013 | 2,824 | 2,473 |
| Net cash outflow from investing activities | (5,027) | (2,202) | (1,418) | (1,237) | (1,336) |
| Net cash inflow (outflow) from financing activities | 1,369 | 170 | (454) | (535) | (326) |
| Net cash inflow (outflow) | 456 | (1,079) | 1,141 | 1,052 | 811 |

**Nanjiao Water**

| | At 31 December | | | At 31 October |
|---|---|---|---|---|
| | **2013** | **2014** | **2015** | **2016** |
| | **RMB'000** | **RMB'000** | **RMB'000** | **RMB'000** |
| Current assets | 3,033 | 1,708 | 2,730 | 4,549 |
| Non-current assets | 10,071 | 13,648 | 13,328 | 15,364 |
| Current liabilities | 969 | 2,662 | 2,494 | 6,004 |
| Non-current liabilities | 609 | 864 | 1,380 | 752 |
| Equity attributable to owners of the Company | 4,999 | 5,295 | 5,579 | 6,024 |
| Non-controlling interests | 6,527 | 6,535 | 6,605 | 7,133 |

| | Year ended 31 December | | | Ten months ended 31 October | |
|---|---|---|---|---|---|
| | **2013** | **2014** | **2015** | **2015** | **2016** |
| | **RMB'000** | **RMB'000** | **RMB'000** | **RMB'000 (Unaudited)** | **RMB'000** |
| Revenue | 15,050 | 15,656 | 17,098 | 13,628 | 15,600 |
| Expenses | (14,611) | (15,227) | (16,507) | (13,405) | (14,627) |
| Profit for the year/period | 439 | 429 | 591 | 223 | 973 |
| Profit and total comprehensive income attributable to owners of the Company | 190 | 192 | 269 | 100 | 446 |
| Profit and total comprehensive income attributable to non-controlling interests | 249 | 237 | 322 | 123 | 527 |
| Dividends declared to non-controlling interests | – | 70 | 132 | 131 | – |
| Net cash inflow from operating activities | 819 | 1,043 | 1,690 | 946 | 591 |
| Net cash outflow from investing activities | (53) | (4,110) | (115) | (6) | (2,974) |
| Net cash inflow (outflow) from financing activities | – | 1,874 | (484) | (254) | 1,885 |
| Net cash inflow (outflow) | 766 | (1,193) | 1,091 | 686 | (498) |

**Xinglu Wastewater Treatment**

| | At 31 December | | | At 31 October |
|---|---|---|---|---|
| | 2013 | 2014 | 2015 | 2016 |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| Current assets | 72,792 | 95,621 | 204,443 | 982,542 |
| Non-current assets | 310,066 | 552,329 | 797,406 | 175,344 |
| Current liabilities | 156,786 | 316,532 | 229,552 | 256,462 |
| Non-current liabilities | 128,501 | 141,334 | 367,177 | 359,627 |
| Equity attributable to owners of the Company | 95,620 | 186,282 | 397,018 | 530,961 |
| Non-controlling interests | 1,951 | 3,802 | 8,102 | 10,836 |

| | Year ended 31 December | | | Ten months ended 31 October | |
|---|---|---|---|---|---|
| | 2013 | 2014 | 2015 | 2015 | 2016 |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 (Unaudited) | RMB'000 |
| Revenue | 99,711 | 276,032 | 380,340 | 314,118 | 276,666 |
| Expenses | (74,227) | (235,159) | (329,556) | (270,634) | (221,989) |
| Profit for the year/period | 25,484 | 40,873 | 50,784 | 43,484 | 54,677 |
| Profit and total comprehensive income attributable to owners of the Company | 24,974 | 40,056 | 49,769 | 42,614 | 53,583 |
| Profit and total comprehensive income attributable to non-controlling interests | 510 | 817 | 1,015 | 870 | 1,094 |
| Dividends declared to non-controlling interests | – | 946 | 316 | – | – |
| Capital contribution by the Company | | 97,020 | 176,400 | 176,400 | 80,360 |
| Capital contribution by a non-controlling shareholder | – | 1,980 | 3,600 | 3,600 | 1,640 |
| Net cash inflow from operating activities | 28,800 | 60,818 | 89,651 | 76,872 | 99,414 |
| Net cash outflow from investing activities | (51,358) | (219,587) | (207,238) | (10,391) | (114,976) |
| Net cash inflow (outflow) from financing activities | 26,402 | 180,588 | 226,300 | (46,160) | (36,916) |
| Net cash inflow (outflow) | 3,844 | 21,819 | 108,713 | 20,321 | (52,478) |

## 34. CAPITAL MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged throughout the Track Record Period.

The capital structure of the Group consists of net debts (which includes borrowings net of cash and cash equivalents) and total equity (comprising paid-in capital/share capital, capital reserve, statutory surplus reserve, retained profits and non-controlling interests).

The Group is not subject to any externally imposed capital requirements.

**Net debts to equity ratio**

The Group's management reviews the capital structure on a regular basis. As part of this review, the Directors consider the cost of capital and the risks associated with the capital.

The net debts to equity ratio of the Group at the end of each of the Track Record Period was as follows:

| | At 31 December | | | At 31 October |
|---|---|---|---|---|
| | 2013 | 2014 | 2015 | 2016 |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| Debts | 114,664 | 389,314 | 490,920 | 595,283 |
| Less: Bank balances and cash | (97,121) | (170,159) | (289,309) | (366,298) |
| Net debts | 17,543 | 219,155 | 201,611 | 228,985 |
| Total equity | 474,923 | 655,985 | 1,095,257 | 1,350,637 |
| Net debts to equity ratio | 3.7% | 33.4% | 18.4% | 17.0% |

*Notes:*

1. Debts comprise long-term and short-term borrowings as detailed in note 26.

2. Total equity includes all capital and reserves attributable to the owners of the Company and non-controlling interests.

**35. FINANCIAL INSTRUMENTS**

**Categories of financial instruments**

| | THE GROUP | | | | THE COMPANY | | | |
|---|---|---|---|---|---|---|---|---|
| | At 31 December | | | At 31 October | At 31 December | | | At 31 October |
| | 2013 | 2014 | 2015 | 2016 | 2013 | 2014 | 2015 | 2016 |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| **Financial assets** | | | | | | | | |
| Loans and receivables | 398,529 | 542,043 | 764,122 | 1,292,700 | 109,459 | 169,741 | 141,052 | 300,610 |
| Available-for-sale Investments | 26,606 | 37,871 | 53,630 | 53,630 | 29,756 | 37,871 | 53,630 | 53,630 |
| **Financial liabilities** | | | | | | | | |
| Amortised costs | 319,315 | 529,275 | 676,257 | 877,352 | 160,757 | 177,984 | 191,251 | 445,893 |

**Financial risk management objectives and policies**

The Group's major financial instruments include receivables under service concession arrangements, available-for-sale investments, other financial assets, trade and other receivables, balances with immediate holding company of the Company, shareholders of the Company, fellow subsidiaries, non-controlling shareholders of subsidiaries; bank balances and cash, trade and other payables and borrowings. Details of these financial instruments are disclosed in the respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The Directors manage and monitor these exposures to ensure appropriate measures are implemented on a timely and effective manner.

The Group's operations expose it to a number of financial risks; principally interest rate risk, foreign currency risk, the liquidity risk and the credit risk. Continuous monitoring of these risks ensures that the Group is protected against any adverse effects of such risks so far as it is possible and foreseeable.

***Interest rate risk***

The Group's fair value interest rate risk relates primarily to its fixed interest rate borrowings. The Group is also exposed to cash flow interest rate risk through the impact of rate changes on variable interest bearing financial assets (mainly bank balances which carried at prevailing market interest rates) and borrowings bearing at floating rates. The Group currently does not use any derivative contracts to hedge its exposure to interest rate risk.

The sensitivity analysis below has been determined based on the exposure to interest rates for variable interest bearing bank balances and borrowings at the end of each of the Track Record Period and assumed that these amounts outstanding at the end of each of the Track Record Period was outstanding for the whole relevant year/period.

If interest rates on bank balances and borrowings had been 10 basis points higher, and all other variables were held constant, the potential effect on post-tax results is as follows:

| | THE GROUP | | | | THE COMPANY | | | |
|---|---|---|---|---|---|---|---|---|
| | Year ended 31 December | | | Ten months ended 31 October | Year ended 31 December | | | Ten months ended 31 October |
| | 2013 | 2014 | 2015 | 2016 | 2013 | 2014 | 2015 | 2016 |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| Increase (decrease) in post-tax profit | 44 | 111 | (52) | (94) | 18 | 81 | (13) | – |

There would be an equal and opposite impact on the above post-tax results, should interest rates on bank balances and borrowings had been 10 basis points lower in the above sensitivity analysis.

***Foreign currency risk***

While the Group carries out its business in the PRC and receives revenue and pays its costs/expenses in RMB, the Group had a borrowing from The World Bank that is US$ denominated. The Group does not currently hedge its exposure to foreign currencies and recognises the profits and losses resulting from currency fluctuations as and when they arise.

The carrying amounts of the Group's and Company's foreign currency denominated monetary liabilities at the end of each reporting period are as follows:

| | THE GROUP | | | | THE COMPANY | | | |
|---|---|---|---|---|---|---|---|---|
| | At 31 December | | | At 31 October | At 31 December | | | At 31 October |
| | 2013 | 2014 | 2015 | 2016 | 2013 | 2014 | 2015 | 2016 |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| Borrowings – US$ . . . . . . . . . | 9,164 | 7,914 | 6,920 | 5,283 | 9,164 | 7,914 | 6,920 | 5,283 |

The following table details the Group's and Company's sensitivity to five percent appreciation of US$ against RMB which represents the management's assessment of the reasonable possible change in US$-RMB exchange rate. The sensitivity analysis of the Group and Company includes the outstanding US$ denominated borrowing as adjusted for five percent appreciation of US$ at the end of each of the Track Record Period.

| | THE GROUP | | | | THE COMPANY | | | |
|---|---|---|---|---|---|---|---|---|
| | Year ended 31 December | | | Ten months ended 31 October | Year ended 31 December | | | Ten months ended 31 October |
| | 2013 | 2014 | 2015 | 2016 | 2013 | 2014 | 2015 | 2016 |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| Decrease in post-tax profit | 389 | 336 | 294 | 225 | 389 | 336 | 294 | 225 |

There would be an equal and opposite impact on the above post-tax results, should the US$ be weakened against RMB in the above sensitivity analysis.

***Credit risk***

The Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties is arising from the carrying amount of the respective recognised financial assets as stated in the consolidated statements of financial position.

In order to minimise the credit risk, the management of the Group has monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade debt and receivable under concession arrangement at the end of each reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the Directors consider that the Group's credit risk is significantly reduced.

The Group's credit risk is primarily attributable to its trade receivables and receivables under service concession arrangements. In order to minimise the credit risk, the Group's management continuously monitors the level of exposure to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual debt at the end of each reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the Directors consider that the Group's credit risk is significantly reduced.

The credit risk on bank balances is minimal as such amounts are placed in banks with good reputation.

The Group has concentration of credit risk because 71.2%, 54.2%, 62.7% and 80.6% of total trade receivables and receivables under service concession arrangements as at 31 December 2013, 2014 and 2015 and 31 October 2016, respectively, were due from the two largest customers as set out in note 7.

***Liquidity risk***

As detailed in note 2, the Group had net current liabilities of RMB165,810,000, RMB292,017,000, RMB115,332,000 and RMB83,386,000 as at 31 December 2013, 2014 and 2015 and 31 October 2016, respectively. In the management of liquidity risk, the Group's management prepares forecast for future cash requirements that takes into account of the operating cash flows, the liquidity risk tables below and future capital commitments aiming at keeping the Group's operation with sufficient cash to meet the liabilities due at any time. Based on such forecast, should the Group require additional cash to fund its operation/expansion projects, the Group's management decide to obtain additional banking borrowings or additional capital. Details of the bank borrowings and capital of the Group during the Track Record Period have been set out in notes 26 and 31, respectively. As at 31 October 2016, the Group had unutilised banking facilities amounting to RMB411 million which is repayable by installments upon drawn down dates to December 2030.

**Liquidity risk tables**

The following tables detail the Group's remaining contractual maturity for its financial liabilities based on the agreed repayment terms. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows. To the extent that interest flows are floating rate, the undiscounted amount is derived from interest rate at the end of each reporting period.

| | Weighted average interest rate | Less than 6 months and on demand | 6 months to 1 year | 1 to 2 years | More than 2 years | Total undiscounted cash flows | Carrying amounts |
|---|---|---|---|---|---|---|---|
| | % | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| **THE GROUP** | | | | | | | |
| **31 December 2013** | | | | | | | |
| Borrowings | | | | | | | |
| – Fixed rate . . . . . | 0.00% | 46,400 | 23,500 | – | – | 69,900 | 69,900 |
| – Variable rate . . . | 5.39% | 3,634 | 3,597 | 8,032 | 38,560 | 53,823 | 44,764 |
| Trade and other payables . . . . . . . | | 193,895 | 10,756 | – | – | 204,651 | 204,651 |
| | | 243,929 | 37,853 | 8,032 | 38,560 | 328,374 | 319,315 |
| **31 December 2014** | | | | | | | |
| Borrowings | | | | | | | |
| – Fixed rate . . . . . | 8.22% | 237,634 | 126,037 | – | – | 363,671 | 349,400 |
| – Variable rate . . . | 5.42% | 4,268 | 3,764 | 6,898 | 31,696 | 46,626 | 39,914 |
| Trade and other payables . . . . . . . | | 120,652 | 19,309 | – | – | 139,961 | 139,961 |
| | | 362,554 | 149,110 | 6,898 | 31,696 | 550,258 | 529,275 |
| **31 December 2015** | | | | | | | |
| Borrowings | | | | | | | |
| – Fixed rate . . . . . | 7.72% | 122,014 | 20,209 | – | – | 142,223 | 140,000 |
| – Variable rate . . . | 5.04% | 59,400 | 68,064 | 41,667 | 240,750 | 409,881 | 350,920 |
| Trade and other payables . . . . . . . | | 143,096 | 42,241 | – | – | 185,337 | 185,337 |
| | | 324,510 | 130,514 | 41,667 | 240,750 | 737,441 | 676,257 |
| **31 October 2016** | | | | | | | |
| Borrowings | | | | | | | |
| – Fixed rate . . . . . | 2.25% | 1,081 | 30,404 | 792 | 76,153 | 108,430 | 96,000 |
| – Variable rate . . . | 4.84% | 201,140 | 89,345 | 53,964 | 203,573 | 548,022 | 499,283 |
| Trade and other payables . . . . . . . | | 232,311 | 49,758 | – | – | 282,069 | 282,069 |
| | | 434,532 | 169,507 | 54,756 | 279,726 | 938,521 | 877,352 |
| **THE COMPANY** | | | | | | | |
| **31 December 2013** | | | | | | | |
| Borrowings | | | | | | | |
| – Variable rate . . . | 0.87% | 668 | 690 | 1,518 | 6,639 | 9,515 | 9,164 |
| Trade and other payables . . . . . . . | | 151,297 | 296 | – | – | 151,593 | 151,593 |
| | | 151,965 | 986 | 1,518 | 6,639 | 161,108 | 160,757 |
| **31 December 2014** | | | | | | | |
| Borrowings | | | | | | | |
| – Fixed rate . . . . . | 0.00% | – | 105,110 | – | – | 105,110 | 97,000 |
| – Variable rate . . . | 0.87% | 720 | 798 | 678 | 5,994 | 8,190 | 7,914 |
| Trade and other payables . . . . . . . | | 72,746 | 324 | – | – | 73,070 | 73,070 |
| | | 73,466 | 106,232 | 678 | 5,994 | 186,370 | 177,984 |

| | Weighted average interest rate | Less than 6 months and on demand | 6 months to 1 year | 1 to 2 years | More than 2 years | Total undiscounted cash flows | Carrying amounts |
|---|---|---|---|---|---|---|---|
| | % | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| **31 December 2015** | | | | | | | |
| Borrowings | | | | | | | |
| – Fixed rate | 4.83% | 483 | 20,209 | – | – | 20,692 | 20,000 |
| – Variable rate | 4,69% | 53,299 | 61,964 | 1,277 | 5,168 | 121,708 | 116,920 |
| Trade and other payables | | 52,729 | 1,602 | – | – | 54,331 | 54,331 |
| | | 106,511 | 83,775 | 1,277 | 5,168 | 196,731 | 191,251 |
| **At 31 October 2016** | | | | | | | |
| Borrowings | | | | | | | |
| – Fixed rate | 1.20% | 396 | 396 | 792 | 76,153 | 77,737 | 66,000 |
| – Variable rate | 4.49% | 154,283 | 70,981 | 1,213 | 2,982 | 229,459 | 225,283 |
| Trade and other payables | | 154,610 | – | – | – | 154,610 | 154,610 |
| | | 309,289 | 71,377 | 2,005 | 79,135 | 461,806 | 445,893 |

***Fair value measurements***

The Directors consider that the carrying amounts of financial assets and liabilities at amortised cost recognised in the Financial Information approximate their fair values.

## 36. OPERATING LEASES

**As lessee**

At the end of each of the Track Record Period, the Group and the Company had commitments for future minimum lease payments under a non-cancellable operating lease in respect of properties which fall due as follows:

| | THE GROUP | | | | THE COMPANY | | | |
|---|---|---|---|---|---|---|---|---|
| | At 31 December | | | At 31 October | At 31 December | | | At 31 October |
| | 2013 | 2014 | 2015 | 2016 | 2013 | 2014 | 2015 | 2016 |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| Within one year | – | 44 | 16 | 2 | – | – | 16 | 2 |

**As lessor**

Property rental income earned by the Group was RMB2,310,000, RMB1,495,000, RMB938,000, RMB801,000 (unaudited) and RMB845,000 for each of the three years ended 31 December 2013, 2014 and 2015 and the ten months ended 31 October 2015 and 2016, respectively.

All of the Group's and the Company's investment properties are held for rental purposes. They are expected to generate rental on an ongoing basis. All of the properties held have committed tenants for the next 1 to 5 years.

At the end of each of the Track Record Period, the Group and the Company had contracted with tenants for the following future minimum lease payments:

| | THE GROUP | | | | THE COMPANY | | | |
|---|---|---|---|---|---|---|---|---|
| | At 31 December | | | At 31 October | At 31 December | | | At 31 October |
| | 2013 | 2014 | 2015 | 2016 | 2013 | 2014 | 2015 | 2016 |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| Within one year | 1,745 | 1,007 | 1,078 | 328 | 649 | – | 60 | – |
| In the second to fifth year, inclusive | 1,149 | 126 | 12 | 353 | 110 | – | – | – |
| | 2,894 | 1,133 | 1,090 | 681 | 759 | – | 60 | – |

## 37. CAPITAL COMMITMENTS

| | THE GROUP | | | | THE COMPANY | | | |
|---|---|---|---|---|---|---|---|---|
| | At 31 December | | | At 31 October | At 31 December | | | At 31 October |
| | 2013 | 2014 | 2015 | 2016 | 2013 | 2014 | 2015 | 2016 |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| Capital expenditure contracted for but not provided for constructing and upgrading infrastructure | 56,560 | 230,455 | 318,451 | 154,776 | 38,142 | 150,035 | 153,203 | 149,617 |

## 38. MAJOR NON-CASH TRANSACTIONS

During the Track Record Period, the Group had the following major non-cash transactions:

(a) As disclosed in note 17, in 2013, the Group derecognised certain of its property, plant and equipment with carrying value amounting to RMB176,074,000 and recognised both receivables under service concession arrangements (RMB127,142,000) and intangible assets (RMB36,836,000) at fair value of the aforesaid property, plant and equipment upon the service concession arrangement established that is a non-cash transaction. As a result of the above, the Group recognised a loss of RMB12,096,000 on derecognition of property, plant and equipment upon concession arrangements established in 2013.

(b) As disclosed in note 17, during the year ended 31 December 2015 and ten months ended 31 October 2016, respectively, the construction of certain infrastructure of the Group were completed and put into wastewater treatment operation and obtained additional minimum wastewater volume guaranteed. As such, the amounts of RMB98,811,000 and RMB389,602,000 in relation to the aforesaid infrastructure included in the Group's intangible assets were transferred to receivables under service concession arrangements that are non-cash transactions.

(c) As disclosed in note 32, in 2014, the Company carved out its non-core assets amounting to RMB50,781,000 (after non-controlling interests) to Luzhou Assets Management as part of the Division without consideration that has been accounted for as a deemed distribution that is a non-cash transaction.

(d) As disclosed in note 33, in 2016, the Company acquired additional 22.09% of equity interest in Beijiao Water from non-controlling interests by transferring certain tap water supply infrastructure at carrying amount of RMB80,377,000 to Beijiao Water that is a non-cash transaction.

**39. RELATED PARTY TRANSACTIONS**

Balances and transactions between the Company and its subsidiaries, which are related parties of the Company, have been eliminated on consolidation and are not disclosed in this note. Details of transactions between the Group and other related parties are disclosed below.

The Company is ultimately controlled by the PRC government and the Group operates in an economic environment currently predominated by entities controlled, jointly controlled or significantly influenced by the PRC government ("government-related entities").

During the Track Record Period, the Group had transactions with state-owned enterprises including, but not limited to, tap water supply, operating services, construction and other services. 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 are of the opinion that none of these transactions are material related party transactions that require separate disclosure except for the transactions with the immediate holding company of the Company (which is also controlled by the PRC government) and its subsidiaries, i.e. fellow subsidiaries.

Other than the transactions and balances with related parties disclosed elsewhere in the Financial Information, the Group entered into the following transactions with the Company's immediate holding company, fellow subsidiaries and other related parties during the Track Record Period:

| | | | Year ended 31 December | | | Ten months ended 31 October | |
|---|---|---|---|---|---|---|---|
| | | | 2013 | 2014 | 2015 | 2015 | 2016 |
| | Notes | Related parties | RMB'000 | RMB'000 | RMB'000 | RMB'000 (unaudited) | RMB'000 |
| **Continuing transactions** | | | | | | | |
| Tap water supply | (i) | Shareholders and fellow subsidiaries | 687 | 1,416 | 1,025 | 830 | 1,643 |
| Installation service income received | (ii) | Shareholders and fellow subsidiaries | 417 | 257 | 10,622 | 5,489 | 13,902 |
| Water quality testing income | (iii) | A shareholder and fellow subsidiaries | – | – | – | – | 285 |
| Property management fees | (iv) | A fellow subsidiary | (1,259) | (1,906) | (2,802) | (2,335) | (2,475) |
| **Discontinued transactions** | | | | | | | |
| Interest expense | (v) | Immediate holding company of the Company | (547) | (16,148) | (21,335) | (18,480) | (2,568) |
| | (v) | A shareholder | (2,364) | (2,304) | (1,374) | (1,374) | – |
| Sales of properties | (vi) | A fellow subsidiary | – | – | – | – | 564 |
| Sales of investment properties | (vi) | Fellow subsidiaries | – | – | – | – | 2,754 |
| Sales of prepaid lease payments | (vi) | A fellow subsidiary | – | – | – | – | 724 |
| Purchases of properties | (vi) | A fellow subsidiary | – | – | – | – | (525) |
| Purchases of materials | (vi) | Fellow subsidiaries | – | (790) | – | – | – |

*Notes:*

(i) Tap water supply was conducted in accordance with the relevant agreements.

(ii) Installation service income was conducted in accordance with the terms of relevant agreements.

(iii) Water quality testing income was conducted in accordance with the terms of relevant agreements.

(iv) Property management fees were conducted in accordance with the terms of relevant agreements.

(v) Interest expense arose from borrowings from the Company's immediate holding company and a shareholder. Further details of these borrowings are set out in note 26.

(vi) These transactions were conducted in accordance with the terms of relevant agreements.

In addition to the above, the Group also had the following transactions with related parties:

(a) During the Track Record Period, the immediate holding company of the Company provided guarantees to banks, at nil consideration, for granting borrowings to the Group. Further details are set out in note 26.

(b) During the Track Record Period, the immediate holding company of the Company provided certain office premises to the Company for office purpose at nil consideration.

(c) The details of remuneration of key management personnel, representing emoluments of the Directors and supervisors, are set out in note 12.

## B. DIRECTORS' AND SUPERVISORS' REMUNERATION

Under the arrangement currently in force, the aggregate amount of remunerations of the Directors and supervisors payable for the year ended 31 December 2016 is estimated to be approximately RMB2,224,000.

## C. EVENTS AFTER THE REPORTING PERIODS

Save as disclosed elsewhere in the Financial Information, subsequent events of the Group are detailed as follows:

1. In November 2016, the Company obtained an unsecured bank borrowing of RMB50 million which bears interest at a floating rate of 4.35% per annum and is repayable in November 2017.

2. In December 2016, the Company obtained a banking facility of RMB30 million and the Company has drawn down an unsecured bank borrowing of RMB10 million from the facility that bears interest at a fixed rate of 4.35% per annum and is repayable in December 2017.

3. In December 2016, the Company obtained another banking facility of RMB180 million and the Company has drawn down an unsecured bank borrowing of RMB90 million from the facility that bears interest at a floating rate of 5.15% per annum and is repayable by instalments till December 2024. The repayment of the bank borrowing is guaranteed by a subsidiary of the Company.

4. In February 2017, a subsidiary of the Company obtained an unsecured bank borrowing of RMB10,000,000 which bears interest at a floating rate of 4.79% per annum and is repayable in February 2018. The repayment of this bank borrowing is guaranteed by another subsidiary of the Company.

## D. SUBSEQUENT FINANCIAL STATEMENTS

Except for the consolidated financial statements of the Group for the year ended 31 December 2016, prepared in accordance with IFRSs and approved and authorised for issue by the board of the directors of the Company on 21 March 2017, no audited financial statements of the Company or any of its subsidiaries have been prepared in respect of any period subsequent to 31 October 2016.

Yours faithfully,

**Deloitte Touche Tohmatsu**
*Certified Public Accountants*
Hong Kong

*The information set out in this Appendix does not form part of the accountants' report on the financial information of the Group for the three years ended 31 December 2015 and the ten months ended 31 October 2016 issued by Deloitte Touche Tohmatsu, Certified Public Accountants, Hong Kong, our Company's Reporting Accountants, as set out in Appendix I to this prospectus (the "Accountants' Report"), and is included herein for information only. The unaudited pro forma financial information should be read in conjunction with the section headed "Financial Information" in this prospectus and the Accountants' Report set out in Appendix I to this prospectus.*

## A. UNAUDITED PRO FORMA STATEMENT OF ADJUSTED CONSOLIDATED NET TANGIBLE ASSETS OF THE GROUP ATTRIBUTABLE TO OWNERS OF THE COMPANY

The following unaudited pro forma statement of adjusted consolidated net tangible assets of the Group attributable to owners of the Company prepared in accordance with paragraph 4.29(1) of the Listing Rules is set out below to illustrate the effect of the Global Offering on the audited consolidated net tangible assets of the Group attributable to owners of the Company as if the Global Offering had taken place on 31 October 2016.

The unaudited pro forma statement of adjusted consolidated net tangible assets of the Group attributable to owners of the Company has been prepared for illustrative purposes only and, because of its hypothetical nature, may not give a true picture of the financial position of the Group as at 31 October 2016 or any future date following the Global Offering.

The following unaudited pro forma statement of adjusted consolidated net tangible assets of the Group attributable to owners of the Company is based on the audited consolidated net tangible assets of the Group attributable to owners of the Company as at 31 October 2016 as derived from the Accountants' Report, the text of which is set out in Appendix I to this prospectus, and adjusted as follows:

| | Audited consolidated net tangible assets of the Group attributable to owners of the Company as at 31 October 2016 | Estimated net proceeds from the Global Offering | Unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to owners of the Company | Unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to owners of the Company per Share | |
|---|---|---|---|---|---|
| | RMB'000 | RMB'000 | RMB'000 | RMB | HK$ |
| | (Note 1) | (Note 2) | | (Note 3) | (Note 4) |
| Based on Offer Price of HK$2.30 per Share . . . . . . . . | 337,695 | 345,864 | 683,559 | 0.80 | 0.91 |
| Based on Offer Price of HK$2.53 per Share . . . . . . . | 337,695 | 383,342 | 721,037 | 0.84 | 0.96 |

*Notes:*

(1) The audited consolidated net tangible assets of the Group attributable to owners of the Company is extracted from the Accountants' Report set out in Appendix I to this prospectus, which is based on the audited consolidated total equity of the Group attributable to owners of the Company as at 31 October 2016 of approximately RMB1,269,856,000 less the intangible assets of the Group attributable to owners of the Company as at 31 October 2016 of approximately RMB932,161,000.

(2) The estimated net proceeds from the issue of the Offer Shares (excluding Sale Shares) pursuant to the Global Offering are based on 195,400,000 Offer Shares (excluding Sale Shares) at the Offer Price of lower limit and upper limit of HK$2.30 and HK$2.53 per Offer Share, respectively, after deduction of the estimated underwriting commissions and fees and other related expenses incurred and to be incurred by the Company (excluding listing expenses which has been charged to profit or loss up to 31 October 2016 by the Company). The calculation of such estimated net proceeds does not take into account of any Shares which may be allotted and issued pursuant to the exercise of Over-allotment Option. The estimated net proceeds from the Global Offering are converted from Hong Kong dollars into Renminbi at an exchange rate of RMB0.8723 to HK$1.00, which was the PBOC rate prevailing on 31 October 2016. No representation is made that Hong Kong dollars amounts have been, could have been or may be converted to Renminbi, or vice versa, at that rate or at any other rates or at all.

(3) The unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to owners of the Company per Share is calculated after the adjustments referred to in note (2) above and based on 859,710,000 Shares in issue immediately following the completion of the Global Offering. It does not take into account of any Shares which may be allotted and issued pursuant to the exercise of Over-allotment Option.

(4) The unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to owners of the Company per Share is converted from Renminbi into Hong Kong dollars at the rate of RMB0.8723 to HK$1.00, which was the PBOC rate prevailing on 31 October 2016. No representation is made that the RMB amounts have been, could have been or may be converted to Hong Kong dollars, or vice versa, at that rate or at any other rates or at all.

(5) No adjustment has been made to the unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to owners of the Company to reflect any trading results or other transactions of the Group entered into subsequent to 31 October 2016.

## B. INDEPENDENT REPORTING ACCOUNTANTS' ASSURANCE REPORT ON THE COMPILATION OF UNAUDITED PRO FORMA FINANCIAL INFORMATION

*The following is the text of the assurance report received from Deloitte Touche Tohmatsu, Certified Public Accountants, Hong Kong, the reporting accountants of our Company, in respect of the Group's unaudited pro forma financial information prepared for the purpose of incorporation in this prospectus.*

Deloitte. 德勤

## INDEPENDENT REPORTING ACCOUNTANTS' ASSURANCE REPORT ON THE COMPILATION OF UNAUDITED PRO FORMA FINANCIAL INFORMATION

**To the Directors of Luzhou Xinglu Water (Group) Co., Ltd.**

We have completed our assurance engagement to report on the compilation of unaudited pro forma financial information of Luzhou Xinglu Water (Group) Co., Ltd. (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") by the directors of the Company (the "Directors") for illustrative purposes only. The unaudited pro forma financial information consists of the unaudited pro forma statement of adjusted consolidated net tangible assets as at 31 October 2016 and related notes as set out on pages II-1 to II-2 of Appendix II to the prospectus issued by the Company dated 21 March 2017 (the "Prospectus"). 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 of Appendix II to the Prospectus.

The unaudited pro forma financial information has been compiled by the Directors to illustrate the impact of the Global Offering (as defined in the Prospectus) on the Group's financial position as at 31 October 2016 as if the Global Offering had taken place at 31 October 2016. 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 three years ended 31 December 2015 and ten months ended 31 October 2016, on which an accountants' report set out in Appendix I to the Prospectus has been published.

**Directors' Responsibilities 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 (the "HKICPA").

**Our Independence and Quality Control**

We have complied with the independence and other ethical requirements of the "Code of Ethics for Professional Accountants" issued by the HKICPA, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behavior.

Our firm applies Hong Kong Standard on Quality Control 1 "Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements" issued by the HKICPA and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

**Reporting Accountants' Responsibilities**

Our responsibility is to express an opinion, as required by paragraph 4.29(7) of the Listing Rules on the 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 accountants plan and perform 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 an investment circular is solely to illustrate the impact of a significant event or transaction on unadjusted financial information of the Group 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 event or transaction at 31 October 2016 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 unaudited 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 accountants' judgment, having regard to the reporting accountants' understanding of the nature of the Group, 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 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.

**Deloitte Touche Tohmatsu**
*Certified Public Accountants*
Hong Kong
21 March 2017

*The following is the preliminary financial information of the Group for the year ended 31 December 2016 together with a management's discussion and analysis of the Group's financial condition and result of operations. The preliminary financial information has been prepared based on the audited consolidated financial statements of the Group prepared in accordance with IFRS.*

**CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME**

| | Notes | Year ended 31 December 2015 | 2016 |
|---|---|---|---|
| | | RMB'000 | RMB'000 |
| Revenue | 4 | 911,896 | 836,191 |
| Cost of sales and services | | (699,435) | (621,582) |
| Gross profit | | 212,461 | 214,609 |
| Other income, expenses, gains and losses, net | 5 | 19,329 | 33,397 |
| Selling and distribution expenses | | (8,311) | (9,973) |
| Administrative expenses | | (38,706) | (46,323) |
| Listing expenses | | – | (1,798) |
| Finance costs | 6 | (14,421) | (24,100) |
| Profit before tax | 8 | 170,352 | 165,812 |
| Income tax expense | 7 | (25,934) | (25,016) |
| | | 144,418 | 140,796 |
| Profit and total comprehensive income for the year attributable to: | | | |
| – Owners of the Company | | 130,412 | 126,647 |
| – Non-controlling interests | | 14,006 | 14,149 |
| | | 144,418 | 140,796 |
| Earnings per share (RMB) | 9 | | |
| – Basic | | 0.22 | 0.20 |

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

| | Notes | At 31 December 2015 | At 31 December 2016 |
|---|---|---|---|
| | | RMB'000 | RMB'000 |
| NON-CURRENT ASSETS | | | |
| Property, plant and equipment | | 39,740 | 37,002 |
| Investment properties | | 14,183 | 13,359 |
| Intangible assets | 11 | 1,070,892 | 1,022,144 |
| Prepaid lease payments | | 77,912 | 78,141 |
| Prepayments for prepaid lease payments | | 4,000 | 4,000 |
| Receivables under service concession arrangements | 11 | 386,007 | 761,901 |
| Available-for-sale investments | | 53,630 | 53,630 |
| Deferred income tax assets | | 4,497 | 5,104 |
| | | 1,650,861 | 1,975,281 |
| CURRENT ASSETS | | | |
| Inventories | | 17,465 | 17,395 |
| Receivables under service concession arrangements | 11 | 4,821 | 11,294 |
| Amounts due from customers for contract works | | 7,696 | 8,470 |
| Trade receivables | 12 | 71,326 | 83,717 |
| Prepaid lease payments | | 1,558 | 1,637 |
| Prepayments and other receivables | | 16,192 | 29,774 |
| Restricted bank balance | 13 | – | 5,000 |
| Bank balances and cash | | 289,309 | 526,569 |
| | | 408,367 | 683,856 |
| CURRENT LIABILITIES | | | |
| Borrowings | 14 | 251,412 | 319,674 |
| Trade payables | 15 | 5,313 | 10,442 |
| Advances from customers and other payables | 16 | 218,702 | 319,915 |
| Provisions | | 10,639 | 14,214 |
| Current income tax liabilities | | 37,633 | 21,205 |
| | | 523,699 | 685,450 |
| NET CURRENT LIABILITIES | | (115,332) | (1,594) |
| TOTAL ASSETS LESS CURRENT LIABILITIES | | 1,535,529 | 1,973,687 |

| | Notes | At 31 December 2015 | At 31 December 2016 |
|---|---|---|---|
| | | RMB'000 | RMB'000 |
| CAPITAL AND RESERVES | | | |
| Paid-in capital/Share capital | | 600,000 | 664,310 |
| Reserves | | 431,381 | 625,474 |
| Equity attributable to owners of the Company | | 1,031,381 | 1,289,784 |
| Non-controlling interests | | 63,876 | 81,489 |
| TOTAL EQUITY | | 1,095,257 | 1,371,273 |
| NON-CURRENT LIABILITIES | | | |
| Borrowings | 14 | 239,508 | 365,609 |
| Deferred revenue | | 127,332 | 128,639 |
| Provisions | | 62,943 | 96,544 |
| Deferred income tax liabilities | | 10,489 | 11,622 |
| | | 440,272 | 602,414 |
| | | 1,535,529 | 1,973,687 |

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

| | Attributable to owners of the Company | | | | | | |
|---|---|---|---|---|---|---|---|
| | Paid-in capital/ share capital | Capital reserve | Statutory surplus reserve | Retained profits | Total | Non-controlling interests | Total equity |
| | RMB'000 | RMB'000 | RMB'000 (Note) | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| As at 1 January 2015 | 248,286 | 155,360 | 23,871 | 179,291 | 606,808 | 49,177 | 655,985 |
| Profit and total comprehensive income for the year | – | – | – | 130,412 | 130,412 | 14,006 | 144,418 |
| Appropriation for the year | – | – | 6,088 | (6,088) | – | – | – |
| Capital contribution by shareholders | 30,424 | 267,600 | – | – | 298,024 | – | 298,024 |
| Capital contribution by a non-controlling shareholder of a subsidiary | – | – | – | – | – | 3,600 | 3,600 |
| Acquisitions of additional equity interests from non-controlling interests | – | – | – | – | – | (463) | (463) |
| Dividend declared by subsidiaries | – | – | – | – | – | (2,444) | (2,444) |
| Dividend declared | – | – | – | (12,176) | (12,176) | – | (12,176) |
| Event-driven revaluation | – | 8,313 | – | – | 8,313 | – | 8,313 |
| Conversion into a joint stock company | 321,290 | (255,866) | (28,002) | (37,422) | – | – | – |
| At 31 December 2015 | 600,000 | 175,407 | 1,957 | 254,017 | 1,031,381 | 63,876 | 1,095,257 |
| Profit and total comprehensive income for the year | – | – | – | 126,647 | 126,647 | 14,149 | 140,796 |
| Appropriation for the year | – | – | 4,061 | (4,061) | – | – | – |
| Capital contribution by shareholders | 64,310 | 69,270 | – | – | 133,580 | – | 133,580 |
| Capital contribution by a non-controlling shareholder of a subsidiary | – | – | – | – | – | 1,640 | 1,640 |
| Acquisitions of additional equity interests from non-controlling interests | – | (1,824) | – | – | (1,824) | 1,824 | – |
| At 31 December 2016 | 664,310 | 242,853 | 6,018 | 376,603 | 1,289,784 | 81,489 | 1,371,273 |

*Note:* Pursuant to the relevant laws in the People's Republic of China (the "PRC"), each of the entities established in the PRC is required to transfer 10% of its profit after tax as per statutory financial statements (as determined by the management of the subsidiary) to the reserve fund (including the general reserve fund and enterprise development fund where appropriate). The general reserve fund is discretionary when the fund balance reaches 50% of the registered capital of the respective company and can be used to make up for previous years' losses or, expand the existing operations or can be converted into additional capital of the entity.

## NOTES TO THE CONSOLIDATED FINANCIAL INFORMATION

### 1. CORPORATE INFORMATION

The Company was established in The People's Republic of China (the "PRC") on 31 July 2002 as a limited liability company under the Company Law of the PRC. On 25 December 2015, the Company was converted into a joint stock limited liability company.

The principal activities of the Company and its subsidiaries (collectively referred to as the "Group") are mainly engaged in the provision of tap water supply and related installation and maintenance service, wastewater treatment service and construction service.

The address of the registered office and the principal place of business of the Company is No. 16 Baizi Road, Jiangyang District, Luzhou, Sichuan Province, the PRC. It was registered as a non-Hong Kong company under Part 16 of the Hong Kong Companies Ordinance (Cap. 622) on 12 September 2016.

In the opinion of the directors of the Company (the "Directors"), the Company's immediate and ultimate holding company is 瀘州市興瀘投資集團有限公司 (Luzhou Xinglu Investment Group Co., Ltd.), which is established in the PRC as a limited liability company under the Company Law of the PRC.

The consolidated financial statements are presented in Renminbi ("RMB") which is also the functional currency of the Company and its subsidiaries.

### 2. BASIS OF PREPARATION

The Group had net current liabilities of RMB1,594,000 as at 31 December 2016 (2015: RMB115,332,000). In the opinion of the Directors, the consolidated financial statements have been prepared on a going concern basis because the Group will be able to meet in full its financial obligations as and when they fall due for the foreseeable future, taking into account of the expected cash flows from operations, undrawn banking facilities currently available to the Group and new bank borrowings obtained subsequent to 31 December 2016.

### 3. APPLICATION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS

The Group has consistently applied International Financial Reporting Standards ("IFRSs"), International Accounting Standards ("IASs"), amendments and interpretations issued by the International Accounting Standards Board ("IASB") which are effective for annual accounting periods beginning on 1 January 2016 throughout the years reported.

The Group has not early applied the following new standards and amendments that have been issued but are not yet effective.

| | |
|---|---|
| IFRS 9 | Financial Instruments[1] |
| IFRS 15 | Revenue from Contracts with Customers[1] |
| IFRS 16 | Leases[2] |
| IFRIC 22 | Foreign Currency Transactions and Advance Consideration[1] |
| Amendments to IFRS 2 | Classification and Measurement of Share-based Payment Transactions[1] |
| Amendments to IFRS 4 | Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts[1] |
| Amendments to IFRS 15 | Clarifications to IFRS 15 Revenue from Contracts with Customers[1] |
| Amendments to IFRS 10 and IAS 28 | Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[3] |
| Amendments to IAS 7 | Disclosure Initiative[4] |
| Amendments to IAS 12 | Recognition of Deferred Tax Assets for Unrealised Losses[4] |
| Amendments to IAS 40 | Transfers of Investment Property[1] |
| Amendments to IFRSs | Annual Improvements to IFRS Standards 2014–2016 Cycle[5] |

[1] Effective for annual periods beginning on or after 1 January 2018
[2] Effective for annual periods beginning on or after 1 January 2019
[3] Effective for annual periods beginning on or after a date to be determined
[4] Effective for annual periods beginning on or after 1 January 2017
[5] Effective for annual periods beginning on or after 1 January 2017 or 1 January 2018, as appropriate

Except as disclosed below, the application of the new and revised IFRSs issued but not yet effective has had no material impact on the Group's financial performance and positions and/or the disclosures when they became effective.

**IFRS 9 Financial Instruments**

IFRS 9 introduced new requirements for the classification and measurement of financial assets, liabilities, general hedge accounting and impairment requirements for financial assets.

Key requirements of IFRS 9 are described below:

- All recognised financial assets that are within the scope of IFRS 9 are required to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are generally measured at fair value through other comprehensive income ("FVTOCI"). All other debt investments and equity investments are measured at their fair value at the end of subsequent accounting periods. In addition, under IFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.

- With regard to the measurement of financial liabilities designated as at fair value through profit or loss, IFRS 9 requires that the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value of financial liabilities attributable to changes in the financial liabilities' credit risk are not subsequently reclassified to profit or loss. Under IAS 39 *Financial Instruments: Recognition and Measurement*, the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss was presented in profit or loss.

- In relation to the impairment of financial assets, IFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under IAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.

- The new general hedge accounting requirements retain the three types of hedge accounting mechanisms currently available in IAS 39. Under IFRS 9, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the retrospective quantitative effectiveness test has been removed. Enhanced disclosure requirements about an entity's risk management activities have also been introduced.

The Directors anticipate that application of IFRS 9 may have a material impact on the classification and measurement of the Group's available-for-sale investments stated at cost less impairment which will be measured as fair value through profit or loss or be designated as fair value through other comprehensive income (subject to fulfillment of the designation criteria). In addition, there will be the potential early recognition of credit losses based on the expected loss model in relation to the Group's financial assets measured at amortised cost in the application of IFRS 9. Save as the aforesaid, the Directors anticipate that the adoption of IFRS 9 in the future may not have other significant impact on amounts reported in respect of the Group's financial assets and financial liabilities based on an analysis of the Group's financial instruments as at 31 December 2016.

**IFRS 15 Revenue from Contracts with Customers**

IFRS 15 was issued which establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. IFRS 15 will supersede the current revenue recognition guidance including IAS 18 *Revenue*, IAS 11 *Construction Contracts* and the related interpretations when it becomes effective.

The core principle of IFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the standard introduces a 5-step approach to revenue recognition:

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

Under IFRS 15, an entity recognises revenue when (or as) a performance obligation is satisfied, i.e. when "control" of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in IFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by IFRS 15.

Based on the assessment so far, the Directors do not expect the adoption of IFRS 15 would result in significant impact on its revenue recognition, however, may result in additional disclosures.

**4. SEGMENT INFORMATION**

Information reported to Chairman of the Company, being the chief operating decision maker ("CODM"), during the year, for the purposes of resource allocation and assessment of segment performance focuses on types of services provided. Specifically, the Group's reportable segments under IFRS 8 *Operating Segments* are as follows:

- Tap water supply – provision of tap water supply and related construction, installation and maintenance services

- Wastewater treatment – provision of wastewater treatment service and related construction service

| | Year ended 31 December | |
|---|---|---|
| | **2015** | **2016** |
| | **RMB'000** | **RMB'000** |
| **Segment revenue** | | |
| Tap water supply | | |
| – From external customers | | |
| – Tap water | 163,348 | 179,353 |
| – Installation and maintenance services | 131,760 | 136,132 |
| – Construction and upgrade services of tap water supply infrastructure | 236,448 | 214,239 |
| – Inter-segment sales | | |
| – Tap water | 658 | 644 |
| Wastewater treatment | | |
| – From external customers | | |
| – Operating service | 109,002 | 125,885 |
| – Interest income on receivables under service concession arrangements | 18,959 | 27,158 |
| – Construction and upgrade services of wastewater treatment infrastructure | 252,379 | 153,424 |
| Elimination* | (658) | (644) |
| Revenue | 911,896 | 836,191 |
| **Segment results** | | |
| – Tap water supply | 93,634 | 81,998 |
| – Wastewater treatment | 50,784 | 60,596 |
| – Unallocated expenses | – | (1,798) |
| Profit after tax | 144,418 | 140,796 |

* Inter-segment sales for the years ended 31 December 2015 and 2016 were conducted at terms mutually agreed among the companies comprising the Group.

The accounting policies of the operating segments are the same as the Group's accounting policies. Segment profit represents the profit earned by each segment without allocation of the listing expenses. This is the measure reported to the CODM for the purposes of resource allocation and assessment of segment performance.

**Segment assets and liabilities**

The following is an analysis of the Group's assets and liabilities by reportable and operating segment:

| | At 31 December | |
|---|---|---|
| | 2015 | 2016 |
| | RMB'000 | RMB'000 |
| **Segment assets** | | |
| – Tap water supply | 1,055,179 | 1,512,283 |
| – Wastewater treatment | 1,001,849 | 1,127,716 |
| Unallocated corporate assets | 2,200 | 19,178 |
| Elimination | – | (40) |
| Consolidated total assets | 2,059,228 | 2,659,137 |
| **Segment liabilities** | | |
| – Tap water supply | 367,242 | 699,710 |
| – Wastewater treatment | 596,729 | 579,998 |
| Unallocated corporate liabilities | – | 8,196 |
| Elimination | – | (40) |
| Consolidated total liabilities | 963,971 | 1,287,864 |

For the purposes of monitoring segment performance and allocating resources between segments, all assets and liabilities are allocated to operating segments accordingly other than unallocated corporate assets (represent deferred listing expenses) and unallocated corporate liabilities (represent listing expenses payable).

## 5. OTHER INCOME, EXPENSES, GAINS AND LOSSES, NET

| | Year ended 31 December | |
|---|---|---|
| | 2015 | 2016 |
| | RMB'000 | RMB'000 |
| Bank interest income | 2,000 | 1,878 |
| Deferred revenue in respect of government grants recognised | 7,130 | 6,488 |
| Value-added-tax ("VAT") refunds *(Note (a))* | 4,800 | 13,821 |
| Commission income on garbage fees collected for governmental bureau | 1,659 | 1,335 |
| Late charges on tap water users | 2,111 | 2,320 |
| Rental income less outgoings | 706 | 765 |
| Gains on disposal of property, plant and equipment, net | 27 | 3,830 |
| Gain on disposal of prepaid lease payments | 775 | 654 |
| Gain on disposal of investment properties | – | 1,746 |
| (Impairment losses) reversal of impairment losses on trade and other receivables | (715) | 58 |
| Foreign exchange losses, net | (451) | (478) |
| Donations | (96) | (146) |
| Others *(Note (b))* | 1,383 | 1,126 |
| | 19,329 | 33,397 |

*Notes:*

a. Commencing from 1 July 2015, the Group is required to pay VAT for wastewater treatment fees and such VAT paid are refundable pursuant to "Notice of the Ministry of Finance and the State Administration of Taxation on the Publication of the Directory of Value-added Tax Preferential Rate on Goods and Services with Comprehensive Utilisation of Resources" (Cai Shui [2015] No. 78) that the Group is entitled to refund of 70% of VAT paid for wastewater treatment fees upon achieving the technology requirements or pollutant emission standards prescribed in the notice. In the opinion of the Directors, the Group achieved both the technology requirements and pollutant emission standards.

b. Others mainly include water quality inspection fees, gain on sale of sanitaryware and other materials, etc.

## 6. FINANCE COSTS

| | Year ended 31 December | |
|---|---|---|
| | 2015 | 2016 |
| | RMB'000 | RMB'000 |
| Interest on bank borrowings | 1,866 | 26,578 |
| Interest on other borrowings | 22,770 | 2,943 |
| Unwinding of the discount | 2,815 | 3,605 |
| | 27,451 | 33,126 |
| Less: Amount capitalised in qualified assets | (13,030) | (9,026) |
| | 14,421 | 24,100 |

## 7. INCOME TAX EXPENSE

| | Year ended 31 December | |
|---|---|---|
| | 2015 | 2016 |
| | RMB'000 | RMB'000 |
| Current tax | 25,845 | 24,490 |
| Deferred tax | 89 | 526 |
| Total income tax recognised in profit or loss | 25,934 | 25,016 |

During the year, the Group entities are subject to PRC Enterprise Income Tax ("EIT") at 25% (2015: 25%), except for the Company and its subsidiaries (excluding 瀘州市四通給排水工程設計有限公司 (Luzhou Sitong Water Supply and Drainage Engineering Design Co., Ltd.) ("Sitong Design") as explained below) which enjoy the preferential EIT rate of 15%.

According to the Notice of the Enterprise Income Tax for Implementation of Exploration and Development of Western Region (Notice of the State Administration of Taxation No. 12 [2012]) and the Catalogue of Industries Encouraged to Develop in the Western Region (Order of the National Development and Reform Commission No. 15), companies located in the western region of the PRC and engaged in the business encouraged by the PRC government are entitled to the preferential EIT rate of 15% till 31 December 2020 if the operating revenue of the encouraged business in a year accounted for more than 70% of the total income in that year. During the years ended 31 December 2015 and 2016, the aforesaid group entities, which are located in the western region, are engaged in the encouraged businesses included in the related notice and catalogue and the total revenue of their major business for the years ended 31 December 2015 and 2016 accounted for more than 70% of their total revenue in these years, and therefore enjoy the preferential EIT rate of 15%.

Pursuant to the Amendment of the State Administration of Taxation 2015 No. 61, for the three years ending 31 December 2017, small scale and low profit margin companies with annual taxable income of less than RMB200,000 (inclusive of RMB200,000) shall be subject to a business income tax rate of 20% based on the taxable income amounting to 50% of its income. Since Sitong Design satisfies the criteria of a small-scale and low profit-margin company, it shall be eligible for the preferential effective tax rate of 10%.

## 8. PROFIT BEFORE TAX

| | Year ended 31 December | |
|---|---|---|
| | 2015 | 2016 |
| | RMB'000 | RMB'000 |
| **Profit before tax has been arrived at after charging:** | | |
| Depreciation of property, plant and equipment | 5,699 | 6,627 |
| Depreciation of investment properties | 386 | 465 |
| Amortisation of intangible assets | 21,693 | 26,809 |
| Amortisation of prepaid lease payments | 1,607 | 1,628 |
| Staff costs (including the Directors' and supervisors' remuneration): | | |
| – Salaries, wages and welfare | 69,449 | 80,105 |
| – Retirement benefit schemes contributions | 14,288 | 15,734 |
| Total staff costs | 83,737 | 95,839 |
| **and after crediting:** | | |
| Gross rental income from investment properties | 938 | 1,069 |
| Less: Direct operating expenses incurred for investment properties that generated rental income | (232) | (304) |
| | 706 | 765 |

## 9. EARNINGS PER SHARE

The calculation of the basic earnings per share attributable to owners of the Company is based on the following data:

| | Year ended 31 December | |
|---|---|---|
| | 2015 | 2016 |
| Profit attributable to the owners of the Company *(RMB'000)* | 130,412 | 126,647 |
| Weighted average number of ordinary shares issued or deemed to be issued *('000)* | 594,617 | 641,116 |

The Company was converted to a joint stock company on 25 December 2015, 600,000,000 ordinary shares with par value of RMB1 each were issued and allotted to the respective shareholders of the Company according to the paid-in capital registered under these shareholders on that day. This capitalisation of share capital is applied retrospectively, as adjusted for the capital contributions by shareholders for the year ended 31 December 2015 for the purpose of computation of basic earnings per share.

During the years ended 31 December 2015 and 2016, there was no potential ordinary share outstanding. Accordingly, no diluted earnings per share is presented.

## 10. DIVIDENDS

During the year ended 31 December 2015, dividends of RMB12,176,000 have been distributed by the Company to its then equity holders. It is not meaningful to present dividend per share information because the Company did not have the number of ordinary shares when such dividends were declared.

No dividend has been declared by the Company for the year ended 31 December 2016.

## 11. SERVICE CONCESSION ARRANGEMENTS

The Group has entered into a number of service concession arrangements with certain governmental authorities in the PRC. These service concession arrangements generally involve the Group as an operator (i) paying a specific amount for purchasing the relevant infrastructure for operation under the service concession arrangements; (ii) using the existing property, plant and equipment and prepaid lease payments of the Group (the infrastructure) for provision of services under the service concession arrangements; and (iii) operating and maintaining the infrastructure at a specified level of serviceability for the period of 30 years (the "Service Concession Period"), and the Group will be paid for its services over the Service Concession Period at prices stipulated through a pricing mechanism. The Group is generally entitled to use all the infrastructure, however, the relevant governmental authorities as grantors will control and regulate the scope of service that the Group must provide with the infrastructure. Most of such infrastructure is used for its entire useful life under the arrangements.

These service concession arrangements are governed by agreements entered into between the Group and the relevant governmental authorities 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 maintain the infrastructure to a specified level of serviceability during the Service Concession Period, restrictions on the Group's practical ability to sell or pledge the infrastructure and/or the licence under the service concession arrangements, and arrangements for arbitrating disputes.

According to the Group's accounting policy, the consideration paid by the Group for a service concession arrangement is accounted for as an intangible asset (operating concession) or a financial asset (receivable under a service concession arrangement) or a combination of both, as appropriate.

The Group's intangible assets represent operating concession in respect of tap water supply and wastewater treatment service are as follows:

| | RMB'000 |
|---|---|
| **Cost** | |
| At 1 January 2015 | 783,130 |
| Addition | 488,827 |
| Transfer to receivables under service concession arrangements due to additional wastewater treatment volume guaranteed | (98,811) |
| At 31 December 2015 | 1,173,146 |
| Addition | 367,663 |
| Transfer to receivables under service concession arrangements due to additional wastewater treatment volume guaranteed | (389,602) |
| At 31 December 2016 | 1,151,207 |
| **Accumulated amortisation** | |
| At 1 January 2015 | (80,561) |
| Amortisation for the year | (21,693) |
| At 31 December 2015 | (102,254) |
| Amortisation for the year | (26,809) |
| At 31 December 2016 | (129,063) |
| **Carrying amounts** | |
| At 31 December 2015 | 1,070,892 |
| At 31 December 2016 | 1,022,144 |

The Group's receivables under service concession arrangements arose from the minimum wastewater treatment volume guaranteed (being the unconditional right to receive cash from the grantors) in respect of wastewater treatment service concession arrangements are as follows:

| | At 31 December | |
|---|---|---|
| | **2015** | **2016** |
| | **RMB'000** | **RMB'000** |
| Non-current portion | 386,007 | 761,901 |
| Current portion | 4,821 | 11,294 |
| | 390,828 | 773,195 |
| Expected collection schedule is analysed as follows: | | |
| Within one year | 4,821 | 11,294 |
| More than one year, but not exceeding two years | 5,983 | 14,493 |
| More than two years, but not exceeding three years | 6,791 | 16,821 |
| More than three years, but not exceeding four years | 7,374 | 18,325 |
| More than four years, but not exceeding five years | 7,811 | 19,163 |
| Over five years | 358,048 | 693,099 |
| | 390,828 | 773,195 |

The effective rate for the above financial assets fell within the range from 3.51% to 6.00% per annum.

## 12. TRADE RECEIVABLES

| | At 31 December | |
|---|---|---|
| | **2015** | **2016** |
| | **RMB'000** | **RMB'000** |
| Trade receivables | 72,746 | 85,135 |
| Less: Impairment | (1,420) | (1,418) |
| | 71,326 | 83,717 |

Users of tap water supply are required to settle their water fees within one month upon consumption of water. And the Group generally grants credit period of 3 months to its wastewater treatment customers.

The following is an analysis of trade receivables by age, presented based on the respective revenue recognition dates, net of allowance for doubtful debts:

| | At 31 December | |
|---|---|---|
| | **2015** | **2016** |
| | **RMB'000** | **RMB'000** |
| Within 3 months | 54,274 | 50,661 |
| Between 4 months and 6 months | 8,294 | 4,133 |
| Between 7 months and 12 months | 1,256 | 2,609 |
| Over 1 year | 7,502 | 26,314 |
| | 71,326 | 83,717 |

Trade receivables disclosed below are past due at the end of each reporting period for which the Group has not recognised an allowance for doubtful debts because, based on past experience, the Directors are of the opinion that there has not been a significant change in credit quality and the balances are still considered fully recoverable.

Age of trade receivables that are past due but not impaired is analysed as follows:

| | At 31 December | |
|---|---|---|
| | **2015** | **2016** |
| | **RMB'000** | **RMB'000** |
| Overdue by: | | |
| Within 3 months | 10,839 | 6,076 |
| Between 4 months and 6 months | 1,249 | 2,609 |
| Between 7 months and 12 months | 7 | – |
| Over 1 year | 7,502 | 26,314 |
| | 19,597 | 34,999 |

Movement of the Group's provision for impairment of trade receivables is as follows:

| | At 31 December | |
|---|---|---|
| | **2015** | **2016** |
| | **RMB'000** | **RMB'000** |
| At the beginning of the year | 911 | 1,420 |
| Provided (reversed) during the year | 509 | (2) |
| At the end of the year | 1,420 | 1,418 |

The maximum exposure to credit risk at the reporting date is the carrying value of each class of trade receivables mentioned above.

In determining the recoverability of a trade receivable, the Group considers any change in the credit quality of the trade receivable from the date of credit initially granted up to the end of the reporting period.

The impairment recognised represents the difference between the carrying amount of these trade receivables and the present value of the expected proceeds could be recovered. The Group does not hold any collateral over these balances.

**13. RESTRICTED BANK BALANCE**

As at 31 December 2016, the restricted bank balance is deposited with a bank for issuing a performance bond.

## 14. BORROWINGS

| | At 31 December | |
|---|---|---|
| | 2015 | 2016 |
| | RMB'000 | RMB'000 |
| Unsecured bank borrowings without corporate guarantee *(Note (a))* | 130,000 | 220,000 |
| Unsecured bank borrowings with corporate guarantee *(Note (b))* | 100,000 | 260,000 |
| Secured bank borrowings *(Note (c))* | 134,000 | 134,000 |
| Unsecured other borrowing *(Note (d))* | 6,920 | 5,283 |
| Unsecured other borrowing with corporate guarantee *(Note (e))* | – | 66,000 |
| Unsecured borrowings from the immediate holding company of the Company *(Note (f))* | 120,000 | – |
| | 490,920 | 685,283 |

| | 2015 | 2016 |
|---|---|---|
| Carrying amount repayable: | | |
| Within one year or on demand | 251,412 | 319,674 |
| More than one year, but not exceeding two years | 29,724 | 64,674 |
| More than two years, but not more than five years | 120,172 | 165,935 |
| More than five years | 89,612 | 135,000 |
| | 490,920 | 685,283 |
| Less: Amount shown under current liabilities | (251,412) | (319,674) |
| Non-current portion | 239,508 | 365,609 |

*Notes:*

(a) As at 31 December 2015, included in the unsecured bank borrowings is a bank borrowing of RMB20,000,000 bearing interest at a fixed rate of 4.83% per annum, the remaining unsecured bank borrowings bear interest at floating rates ranging from 4.57% to 5.36% per annum. These unsecured bank borrowings are repayable from May 2016 to December 2016.

As at 31 December 2016, included in the unsecured bank borrowings is a bank borrowing of RMB10,000,000 bearing interest at a fixed rate of 4.35% per annum, the remaining unsecured bank borrowings bear interest at floating rates ranging from 4.35% to 4.57% per annum. These bank borrowings are repayable from March 2017 to December 2017.

(b) (i) As at 31 December 2015, the unsecured bank borrowing bears interest at floating rate of 5.64% per annum and its repayment is jointly guaranteed by the Company and its immediate holding company at nil consideration. The unsecured bank borrowing is repayable by installments from June 2017 to December 2021.

(ii) As at 31 December 2016, included in the unsecured bank borrowings are bank borrowings of RMB30,000,000, RMB40,000,000 and RMB90,000,000 bearing interest at a fixed rate of 4.57% per annum, a floating rate of 4.57% per annum and a floating rate of 5.15% per annum, respectively, repayable in May 2017, March 2017 and by instalments till December 2024 and their repayment are guaranteed by the group companies at nil consideration, the remaining bank borrowings represent a bank borrowing with details set out in note (b)(i) above.

(c) The bank borrowings are secured by the Group's charging right for certain wastewater treatment fees and bear interest at a floating rate of 4.90% per annum as at 31 December 2016. The repayment of these bank borrowings are guaranteed by the Company's immediate holding company at nil consideration. These secured bank borrowings are repayable by installments from December 2017 to December 2030.

(d) The other borrowing represents a borrowing from The World Bank for financing the Group's construction of tap water supply infrastructure that bears interest at floating rates ranging from 0.87% to 1.47% per annum and is repayable by installments till August 2021.

(e) As at 31 December 2016, the other borrowing represent a borrowing from China Agriculture Development Key Construction Fund Co., Ltd., which bears interest at a fixed rate of 1.2% per annum and is repayable in June 2031, to finance a tap water supply project of the Group. The repayment of the borrowing is guaranteed by Luzhou Xing Yang Investment Group Limited, a state-owned enterprise.

(f) As at 31 December 2015, the unsecured borrowing from the immediate holding company of the Company bore interest at fixed rate of 8.20% per annum and was fully repaid in April 2016.

(g) As at 31 December 2016, the Group had undrawn banking facilities amounting to RMB521 million which is repayable by installments upon drawn down dates to December 2030.

## 15. TRADE PAYABLES

The following is an analysis of trade payables by age, presented based on the invoice date:

| | At 31 December | |
|---|---|---|
| | 2015 | 2016 |
| | RMB'000 | RMB'000 |
| Within 6 months | 4,027 | 7,599 |
| Between 7 months and 12 months | 76 | 677 |
| Over 1 year | 1,210 | 2,166 |
| | 5,313 | 10,442 |

The credit period on purchases are generally within 6 months.

## 16. ADVANCES FROM CUSTOMERS AND OTHER PAYABLES

| | At 31 December | |
|---|---|---|
| | 2015 | 2016 |
| | RMB'000 | RMB'000 |
| Advances from customers | 32,678 | 52,677 |
| Wages and welfare payable | 18,649 | 19,731 |
| Other taxes payable | 6,000 | 4,116 |
| Dividends payable to immediate holding company of the Company | 315 | – |
| Dividends payable to non-controlling shareholders of subsidiaries | 11 | – |
| Due to fellow subsidiaries | 864 | – |
| Construction payables and deposits received | 99,097 | 172,313 |
| Payable for purchases of wastewater treatment plants | 12,386 | 9,386 |
| Listing expense payable | – | 8,196 |
| Payables to governmental bureau | 36,489 | 42,365 |
| Other payables | 12,213 | 11,131 |
| **Total** | 218,702 | 319,915 |

## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND OPERATION RESULTS

### Analysis of Key Items in the Consolidated Income Statement

***Revenue***

Revenue decreased by 8.3% from RMB911.9 million for the year ended 31 December 2015 to RMB836.2 million for the year ended 31 December 2016.

*Tap water supply*

Sales of tap water

Revenue generated from sales of tap water increased by 9.8% from RMB163.3 million for the year ended 31 December 2015 to RMB179.4 million for the year ended 31 December 2016. The increase was primarily due to a growth in the sales volume from approximately 76.2 million tons for the year ended 31 December 2015 to approximately 82.4 million tons for the year ended 31 December 2016. Revenue generated from sales of tap water accounted for 17.9% and 21.4% of our total revenue for the year ended 31 December 2015 and 2016, respectively.

Installation and maintenance services

Revenue generated from installation and maintenance services increased by 3.3% from RMB131.8 million for the year ended 31 December 2015 to RMB136.1 million for the year ended 31 December 2016. The increase was partially due to an increase in installation projects for residential users we completed for the year ended 31 December 2016. Revenue generated from installation and maintenance service accounted for 14.4% and 16.3% of our total revenue for the year ended 31 December 2015 and 2016, respectively.

Construction and upgrade on tap water supply infrastructure

Revenue generated from construction and upgrade on tap water supply infrastructure decreased by 9.4% from RMB236.4 million for the year ended 31 December 2015 to RMB214.2 million for the year ended 31 December 2016. Such decrease was mainly due to a decrease in the amount of construction works of the pre-operational projects of Qiancao Supply Plant II and Nanjiao Supply Plant II, partially offset by an increase in the amount of upgrade works for operational projects of water supply pipeline network, for the year ended 31 December 2016.

*Wastewater treatment*

Operating services

Revenue generated from operating services of wastewater treatment increased by 15.5% from RMB109.0 million for the year ended 31 December 2015 to RMB125.9 million for the year ended 31 December 2016. The increase was primarily due to the increase in wastewater treatment capacity as we were entitled to a guaranteed minimum treatment tariff after we commenced trial operation upon completion of construction of Chengdong Treatment Plant and Chengnan Treatment Plant from July 2016. Our total treatment volume was 44.6 million ton and 48.7 million ton for the year ended 31 December 2015 and 2016, respectively. Revenue generated from wastewater treatment operation accounted for 12.0% and 15.1% of our total revenue for the year ended 31 December 2015 and 2016, respectively.

Interest income on receivables under service concession arrangements

Interest income on receivables under service concession arrangements increased by 43.2% from RMB19.0 million for the year ended 31 December 2015 to RMB27.2 million for the year ended 31 December 2016. The increase was mainly due to the increase in receivables under service concession arrangements as a result of the entitlement to the guaranteed minimum treatment tariff in respect of Chengdong Treatment Plant and Chengnan Treatment Plant commencing in July 2016, following their trial operations.

Construction and upgrade on wastewater treatment infrastructure

Revenue generated from construction and upgrade on wastewater treatment infrastructure decreased by 39.2% from RMB252.4 million for the year ended 31 December 2015 to RMB153.4 million for the year ended 31 December 2016. The decrease was mainly due to the decrease of such revenue from Chengdong Treatment Plant and Chengnan Treatment Plant because our construction of Chengdong Treatment Plant and Chengnan Treatment Plant was substantially completed by June 2016.

***Cost of Sales and Services***

Cost of sales and services decreased by 11.1% from RMB699.4 million for the year ended 31 December 2015 to RMB621.6 million for the year ended 31 December 2016.

*Tap water supply*

Sales of tap water

Cost of sales and services associated with sales of tap water increased by 19.6% from RMB122.5 million for the year ended 31 December 2015 to RMB146.5 million for the year ended 31 December 2016. The increase was primarily due to the significant increase in maintenance expenses for the year ended 31 December 2016. Cost of sales and services from tap water supply operations accounted for 17.5% and 23.6% of our total cost of sales and services for the year ended 31 December 2015 and 2016, respectively.

Installation and maintenance services

Cost of sales and services associated with installation and maintenance services increased by 25.2% from RMB29.2 million for the year ended 31 December 2015 to RMB36.5 million for the year ended 31 December 2016. The increase was mainly due to the increase in the volume of installation and maintenance work we undertook.

Construction and upgrade on tap water supply infrastructure

Cost of sales and services from construction and upgrade on tap water supply infrastructure decreased by 9.4% from RMB235.9 million for the year ended 31 December 2015 to RMB213.7 million for the year ended 31 December 2016. The decrease was mainly due to a decrease in the amount of construction works of the pre-operational projects of Qiancao Supply Plant II and Nanjiao Supply Plant II, partially offset by an increase in the amount of upgrade works for operational projects of water supply pipeline network, for the year ended 31 December 2016.

*Wastewater treatment*

Operating service

Cost of sales and services from wastewater treatment operating services increased by 20.0% from RMB59.7 million for the year ended 31 December 2015 to RMB71.6 million for the year ended 31 December 2016. Such increase was primarily attributable to the commencement of trial operations of Chengdong Treatment plant and Chengnan Treatment Plant from July 2016. Cost of sales and services from wastewater treatment operating services accounted for 8.5% and 11.5% of our total cost of sales and services for the year ended 31 December 2015 and 2016, respectively.

Construction and upgrade on wastewater treatment infrastructure

Cost of sales and services from construction and upgrade on wastewater treatment infrastructure decreased by 39.2% from RMB252.2 million for the year ended 31 December 2015 to RMB153.3 million for the year ended 31 December 2016. The decrease was mainly because our construction of Chengdong Treatment Plant and Chengnan Treatment Plant was substantially completed by June 2016.

***Gross Profit and Gross Profit Margin***

As a result of above, our gross profit remained stable at RMB212.5 million and RMB214.6 million for the year ended 31 December 2015 and 2016, respectively. Gross profit margin remained stable at 23.3% and 25.7% for the year ended 31 December 2015 and 2016, respectively.

*Tap water supply*

Sales of tap water

The gross profit for sales of tap water under tap water supply operations decreased by 19.6% from RMB40.9 million for the year ended 31 December 2015 to RMB32.9 million for the year ended 31 December 2016. The corresponding gross profit margin decreased from 25.0% for the year ended 31 December 2015 to 18.3% for the year ended 31 December 2016, primarily due to an increase in maintenance expenses.

Installation and maintenance services

The gross profit for installation and maintenance services decreased by 2.9% from RMB102.6 million for the year ended 31 December 2015 to RMB99.6 million for the year ended 31 December 2016. The corresponding gross profit margin remained stable at 77.9% and 73.2% for the year ended 31 December 2015 and 2016, respectively.

Construction and upgrade on tap water supply infrastructure

The gross profit for construction and upgrade on tap water supply infrastructure remained stable at RMB518,000 and RMB493,000 for the year ended 31 December 2015 and 2016, respectively. Such gross profit was primarily derived from construction of Qiancao Supply Plant II and Nanjiao Supply Plant II. The corresponding gross profit margin remained stable at 0.2% and 0.2% for the years ended 31 December 2015 and 2016, respectively.

*Wastewater treatment*

Operating service

The gross profit for wastewater treatment operating services increased by 10.0% from RMB49.3 million for the year ended 31 December 2015 to RMB54.3 million for the year ended 31 December 2016. The corresponding gross profit margin decreased from 45.3% for the year ended 31 December 2015 to 43.1% for the year ended 31 December 2016. The decrease in gross profit margin was mainly due to (i) increased provision for maintenance as Naxi Treatment Plant Phase II, Chengdong Treatment Plant and Chengnan Treatment Plant started trial operation in July 2015, July 2016 and July 2016, respectively, and (ii) newly imposed VAT starting from July 2015 pursuant to the implementation of the Notice 78.

Construction and upgrade on wastewater treatment infrastructure

The gross profit for construction and upgrade on wastewater treatment infrastructure increased, from RMB153,000 for the year ended 31 December 2015 to RMB171,000 for the year ended 31 December 2016, respectively. Such gross profit is determined by independent valuer, Savills, with reference to gross profit margin of the comparable projects in the relevant period. Such gross profit was primarily derived from the construction of Chengdong Treatment Plant and Chengnan Treatment Plant. The corresponding gross profit margin remained stable at 0.1% and 0.1% for the year ended 31 December 2015 and 2016, respectively.

***Other Income, Expenses, Gains and Losses, Net***

Other income, expenses, gains and losses, net increased significantly from RMB19.3 million for the year ended 31 December 2015 to RMB33.4 million for the year ended 31 December 2016. The increase was primarily attributable to a VAT refund starting from July 2015 pursuant to Notice 78 in connection with our wastewater treatment operations.

***Selling and Distribution Expenses***

Selling and distribution expenses increased by 20.0% from RMB8.3 million for the year ended 31 December 2015 to RMB10.0 million for the year ended 31 December 2016. The increase was primarily due to the increase in the salaries and benefits we paid to our employees and technicians, which in turn was a result of an expansion in our work force and to a lesser extent an increase in the salary of our employees.

***Administrative Expenses***

Administrative expenses increased by 19.7% from RMB38.7 million for the year ended 31 December 2015 to RMB46.3 million for the year ended 31 December 2016. The increase was mainly due to (i) an increase in the salaries and benefits we paid to our employees and technicians, which in turn was a result of an expansion in our work force and to a lesser extent an increase in the salary of our employees; and (ii) the increase in legal and other professional fees.

***Finance Costs***

Finance costs increased by 67.1% from RMB14.4 million for the year ended 31 December 2015 to RMB24.1 million for the year ended 31 December 2016, primarily due to an increase in our borrowings and the decrease in interest capitalisation resulting from the commencement of trial operation of Chengdong Treatment Plant and Chengnan Treatment Plant.

***Income Tax Expense***

Income tax expenses were RMB25.9 million and RMB25.0 million for the year ended 31 December 2015 and 2016, representing effective tax rate of 15.2% and 15.1% respectively.

***Profit after Tax and Profit after Tax Margin***

As a result of above, profit after tax decreased slightly by 2.5% from RMB144.4 million for the year ended 31 December 2015 to RMB140.8 million for the year ended 31 December 2016. Our profit after tax margin remained stable at 15.8% and 16.8% for the year ended 31 December 2015 and 2016.

**Analysis of Key Items of Financial Position**

***Property, Plant and Equipment***

Our property, plant and equipment was RMB39.7 million and RMB37.0 million as of 31 December 2015 and 2016, respectively, which consisted primarily of office buildings, machinery and office equipment, office equipment and fixtures and vehicles. Property, plant and equipment decreased from RMB39.7 million as of 31 December 2015 to RMB37.0 million as of 31 December 2016, mainly due to annual depreciation.

***Intangible Assets***

Intangible assets were RMB1,070.9 million and RMB1,022.1 million as of 31 December 2015 and 2016, respectively. Our intangible assets decreased from RMB1,070.9 million as of 31 December 2015 to RMB1,022.1 million as of 31 December 2016, primarily as a result of the commencement of trial operation of Chengdong Treatment Plant and Chengnan Treatment Plant in July 2016, as we transferred the portion of RMB389.6 million representing the extent that we have a contractual right to receive cash from the grantors to our receivables under service concession arrangements. The decrease was partially offset by an increase of RMB367.7 million due to the amount of construction and upgrade work we completed for our construction and upgrade projects.

***Receivables under Service Concession Arrangements***

The receivables under service concession arrangements were RMB390.8 million and RMB773.2 million as of 31 December 2015 and 2016, respectively, among which RMB386.0 million and RMB761.9 million, were classified as non-current, respectively. Such receivables increased from RMB390.8 million as of 31 December 2015 to RMB773.2 million as of 31 December 2016, primarily due to the commencement of trial operation of Chengdong Treatment Plant and Chengnan Treatment Plant in July 2016, as we transferred the portion of RMB389.6 million representing the extent that we have a contractual right to receive cash from the grantors to our receivables under service concession arrangements. Pursuant to the relevant concession agreements and service agreements for these two plants, the local governments guarantee to pay us based on the relevant minimum treatment volumes.

***Inventories***

Our inventories consisted primarily of raw materials, including water pipes and other gadgets related to tap water supply and pipeline installation and maintenance, and was RMB17.5 million and RMB17.4 million, as of 31 December 2015 and 2016, respectively. The table below sets forth the breakdown of our inventory as of the indicated dates:

| | As of 31 December | | | |
|---|---|---|---|---|
| | 2015 | | 2016 | |
| | RMB'000 | % | RMB'000 | % |
| Raw materials | 15,887 | 91.0 | 15,871 | 91.2 |
| Consumables | 1,119 | 6.4 | 1,063 | 6.1 |
| Finished goods | 459 | 2.6 | 461 | 2.7 |
| **Total** | 17,465 | 100.0 | 17,395 | 100.0 |

The table below sets forth the average turnover days of our inventories for the indicated periods:

| | Year ended 31 December | |
|---|---|---|
| | 2015 | 2016 |
| Average inventory turnover days(1) | 32 | 25 |

*Note:*

(1) Calculated using the average of opening and closing balance of the inventory for a period divided by the cost of revenue (excluding cost of sales and services from construction and upgrade on tap water supply or on wastewater treatment infrastructure) of the period and multiplied by the number days in the period. We excluded cost of sales and services from our construction and upgrade services because our inventories are primarily applied to our sales of tap water and installation and maintenance services and wastewater operating services. We believe exclusion of such costs from the calculation of our average inventory turnover days is a more accurate reflection of our operation.

Our average inventories turnover days decreased from 32 days for the year ended 31 December 2015 to 25 days for the year ended 31 December 2016 primarily as a result of our enhanced internal control over inventory.

***Trade Receivables***

Our trade receivables were RMB71.3 million and RMB83.7 million, as of 31 December 2015 and 2016, respectively.

The table below sets forth the average turnover days of our trade receivables for the indented periods.

| | Year ended 31 December | |
|---|---|---|
| | 2015 | 2016 |
| Average trade receivables turnover days(1) | 60 | 60 |

*Note:*

(1) Calculated using the average of opening and closing balance of the trade receivables for a period divided by the revenue (excluding our revenue from construction and upgrade on tap water supply and wastewater treatment infrastructure) of the period and multiplied by the number days in the period. We excluded revenue from our construction and upgrade of infrastructure because we primarily incur receivables from our sales of tap water and installation and maintenance services in tap water supply operations and treatment tariff in wastewater treatment operations. We believe exclusion of revenue from our construction and upgrade services is a more accurate reflection of our actual trade receivables condition.

Our average trade receivables turnover days remained stable at 60 days for the year ended 31 December 2015 and 2016.

***Trade Payables***

Our trade payables were RMB5.3 million and RMB10.4 million, respectively as of 31 December 2015 and 2016.

The table below sets forth the average turnover days of our trade payables for the indicated periods:

| | Year ended 31 December | |
|---|---|---|
| | **2015** | **2016** |
| Average trade payables turnover days(1) | 12 | 11 |

*Note:*

(1) Calculated using the average of opening and closing balance of the trade payables for a period divided by the cost of sales and services of the period (excluding our cost of sales and services from construction and upgrade on tap water supply and wastewater treatment infrastructure) and multiplied by the number of days in the period. We excluded cost of sales and services from our construction and upgrade services because our accounts payable include payables incurred from our sales of tap water and installation and maintenance services and wastewater operating services, while our payables incurred in relation to our construction and upgrade services are included in the other payables. We believe exclusion of such cost of sales and services is a more accurate reflection of our actual trade payables condition.

Our average trade payables turnover days for the year ended 31 December 2016 remained stable at 11 days compared to 12 days for the year ended 31 December 2015.

The table below sets forth the average turnover days of our trade and construction payables taking into account of the construction service payables for the indicated periods:

| | Year ended 31 December | |
|---|---|---|
| | **2015** | **2016** |
| Average trade and construction payables turnover days(1) | 40 | 84 |

*Note:*

(1) Calculated using the average of opening and closing balance of the trade payables and construction payables and deposits received (as included in advance from customers and other payables) for a period divided by the cost of sales and services of the period (including our cost of sales and services from construction and upgrade on tap water supply and wastewater treatment infrastructure) and multiplied by the number of days in the period.

Our average turnover days of trade and construction payables increased from 40 days for the year ended 31 December 2015 to 84 days for the year ended 31 December 2016. The increase was primarily because of our increased payables incurred in relation to various tap water supply and wastewater treatment projects, including Chengdong Treatment Plant and Chengnan Treatment Plant.

***Deferred Revenue***

Our deferred revenue was RMB127.3 million and RMB128.6 million as of 31 December 2015 and 2016, respectively. The slight increase in deferred revenue from RMB127.3 million as of 31 December 2015 to RMB128.6 million as of 31 December 2016 was mainly due to the increase in balance arising from a government grant for our installation and construction projects as a result of our business expansion.

***Advance from Customers and other Payables***

Advance from customers and other payables increased from RMB218.7 million as of 31 December 2015 to RMB319.9 million as of 31 December 2016 was primarily attributable to increase in (i) advance from customers; (ii) construction payables and deposits received; and (iii) payables to governmental bureau, partially offset by decrease in (i) payable for purchases of wastewater treatment plants; and (ii) other taxes payable.

**BUSINESS REVIEW**

**Our Tap Water Supply Services**

In 2016, we continued to serve as an integrated municipal water service provider in Sichuan Province. For the year ended 31 December 2016, our tap water sales volume was approximately 82.4 million tons, representing an increase of 8.1% as compared with approximately 76.2 million tons for the year ended 31 December 2015. The increase in tap water sales volume led to an increase of revenue generated from sales of tap water from external customers by 9.8%, from RMB163.3 million for the year ended 31 December 2015 to RMB179.4 million for the year ended 31 December 2016, and also helped to keep our revenue generated from tap water supply from external customers stable at RMB529.7 million for the year ended 2016, as compared to RMB531.6 million for the year ended 2015.

In 2016, we further strengthened our tap water supply capacity in Luzhou Area. The aggregate designed supply capacity of our water supply plants increased by 19.1%, from 235,500 tons per day as of 31 December 2015 to 280,500 tons per day as of 31 December 2016. Alongside the population and economic growth in Luzhou Area, our total number of tap water end user accounts also increased to approximately 262,730 as of 31 December 2016, from 240,533 as of 31 December 2015.

**Our Wastewater Treatment Services**

In 2016, we continued to be a key municipal wastewater treatment service provider in Luzhou Area. To meet fast growing demand, we had constructed new wastewater treatment plants and expanded processing capacity of certain existing plants. As of 31 December 2016, we had a total of 9 wastewater treatment plants in operation and an aggregate designed wastewater treatment capacity of 261,000 tons per day, as compared to a total of 7 plants and an aggregate designed capacity of 235,000 tons per day, as of 31 December 2015.

In addition, alongside the increase in our wastewater treatment capacity, our revenue generated from operating services of wastewater treatment increased by 15.5% from RMB109.0 million, for the year ended 31 December 2015, to RMB125.9 million, for the year ended 31 December 2016. Our total treatment volume also increased to 48.7 million tons for the year ended 31 December 2016, as compared to 44.6 million tons for the year ended 31 December 2015.

## OUTLOOK

In recent years, the PRC government has promulgated a series of policies to support and stimulate the growth of municipal water related industries. According to the Outline of the Twelfth Five-year Plan on Economic and Social Development (《國民經濟和社會發展十二五規劃綱要》), the environmental protection industry was listed as one of the strategic emerging industries. In April 2015, the State Council promulgated the Action Plan for Water Pollution Prevention and Control (水污染防治行動計劃), which according to the Frost & Sullivan Report, is a plan that is expected to lead to significant government investments and initiatives in municipal water supply and wastewater treatment businesses. We believe we will also benefit from the economic growth of Luzhou Area and the further development of the Southwestern China. For instance, the PRC government has recently proposed the establishment of the Yangtze River Economic Zone and Chengdu-Chongqing Economic Zone, which we believe will benefit the development of these areas. In February 2015, NDRC announced the Tentative Comprehensive National Plan for New Urbanisation (國家新型城鎮化綜合試點方案), which designated 62 cities or counties as experimental sites for the implementation of a series of urbanisation policies. Luzhou City is one of the two designated cities in Sichuan Province. We believe these policies will bring new economic growth opportunities to Luzhou Area, which will in turn stimulate demand for municipal water services.

We believe we can leverage our operational experience and market position in Luzhou Area to expand into suburbs and rural areas as well as other geographic areas. We plan to continue to use a combination of organic growth and strategic acquisitions for our expansion.

## PURCHASE, SALE OR REPURCHASE OF OUR SHARES

Since we were not listed on the Stock Exchange in 2016, the Listing Rules were not applicable to us in that year.

## CODE ON CORPORATE GOVERNANCE PRACTICES

Since we were not listed on the Stock Exchange in 2016, the "Corporate Governance Code" in Appendix 14 of the Listing Rules was not applicable to us for the year ended 31 December 2016. After listing on the Stock Exchange, we will comply with the corporate governance rules and Corporate Governance Code under the Listing Rules.

### Audit Committee

We have established an audit committee in accordance with the Listing Rules and have drawn up written terms of reference. The Audit Committee has reviewed the preliminary financial information of the Group for the year ended 31 December 2016 in this appendix.

## 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 National People's Congress (the "**NPC**") and the Standing Committee of the National People's Congress (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 of the People's Republic of China (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 judgment 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 judgment 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 PRC COMPANY LAW, SPECIAL REGULATIONS AND MANDATORY PROVISIONS**

A joint stock limited company which is incorporated in the PRC and seeking a listing on The Stock Exchange of Hong Kong Limited (the "**Hong Kong Stock Exchange**") is mainly subject to the following three laws and regulations in the PRC:

- Company Law of the People's Republic of China ( the "**PRC Company Law**" ) of the 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;

- 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》) (the "**Special Regulations**") which were promulgated by the State Council on 4 August 1994 pursuant to Articles 85 and 155 of the PRC Company Law in force at that time, and were applicable, to the overseas share subscription and listing of joint stock limited companies; and

- 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》) (the "**Mandatory Provisions**") was jointly promulgated on 27 August 1994 by the Securities Commission and the State Restructuring Commission, 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 V — Summary of Articles of Association".

Set out below is a summary of the major provisions of the PRC 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 PRC 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 state-owned enterprise ("**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 liability and several liability 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 approval 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: (1) the payment of all expenses and debts incurred in the incorporation process jointly and severally if the company cannot be incorporated; (2) 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 (3) 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 or the Directors and the lead underwriters of such company are required to sign on this document to ensure that this document 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 PRC 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 each share must carry equal rights. Each share issued at the same time and within the same class must be issued on the same conditions and at the same price. The issue price of shares may comply with par value or exceed the par value, but shall not be lower than 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 PRC 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 PRC 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 PRC 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 PRC 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 PRC Company Law, a joint stock limited company may not purchase its shares other than for one of the following purposes: (1) to reduce its registered capital; (2) to merge with another company that holds its shares; (3) to grant its shares to its employees as incentives; and (4) 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 (1) to (3) 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 (1) above and transferred or cancelled within six months in the case of (2) or (4) above. Shares acquired in accordance with (3) 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 PRC 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. 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 PRC 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 PRC 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 laws and regulations and the articles of association are 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 PRC Company Law.

Under the PRC Company Law, the shareholders' general meeting exercises the following principal powers:

- to decide on the company's operational policies and investment plans;

- to elect and 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 or 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 PRC 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 association.

Under the PRC 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 PRC 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 PRC 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 PRC 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 PRC 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: (1) amendments to the articles of association; (2) the increase or decrease of registered capital; (3) the issue of any types of shares, warrants or other similar securities; (4) the issue of debentures; (5) the merger, division, dissolution, liquidation or change in the form of the company; (6) 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 PRC 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 PRC 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. 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 the resignation of directors results in the number of directors being less than the quorum.

Under the PRC 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 PRC 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 PRC Company Law, the board of directors shall appoint a chairman and may appoint vice chairmen. The chairman and the vice chairman are elected with approval of more than half of all the directors of the Board. 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 PRC 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 PRC 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 PRC 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 PRC 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 PRC 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 PRC 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. Joint-stock companies established by subscription 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.

After making up losses and allocation of the reserve fund, 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 an individual.

**Appointment and Retirement of Accounting Firms**

Pursuant to the PRC 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 PRC 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 PRC Company Law, a company shall be dissolved by reason of the following: (1) 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; (2) the shareholders' general meeting have resolved to dissolve the company; (3) the company is dissolved by reason of merger or division; (4) the business license is revoked; the company is ordered to close down or be dissolved; or (5) 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 (1) 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 (1), (2), (3), or (4) 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 announcement 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. An individual 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 PRC 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:

(1) the registered capital or shareholding distribution no longer complies with the necessary requirements for a listed company;

(2) 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;

(3) the company has committed a major breach of the law;

(4) the company has incurred losses for three consecutive years; or

(5) 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 (1) above, or the company has refused to rectify the situation in the case described in (2) above, or the company fails to become profitable in the next subsequent year in the case described in (4) 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 PRC 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 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 by the Supreme People's Court (《最高人民法院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 (Winding Up and Miscellaneous Provisions) 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 PRC Company Law and all other rules and regulations promulgated pursuant to the PRC 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 PRC Company Law applicable to a joint stock limited company incorporated and existing under the PRC 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 PRC 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 registered 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 PRC 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 PRC 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 PRC 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 PRC 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 PRC 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 PRC Company Law has no special provision relating to variation of class rights. However, the PRC 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 V — 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, Supervisors and Senior Management**

The PRC 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 PRC 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 PRC 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 PRC 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 PRC 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 PRC 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 PRC 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 PRC 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 PRC 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 (Winding Up and Miscellaneous Provisions) 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 PRC 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 PRC 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 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.

## HONG KONG LISTING RULES

The Hong Kong Listing Rules provide additional requirements which apply to an issuer which is incorporated in the PRC as a joint stock limited liability company and seeks a primary listing or whose primary listing is on the Hong Kong Stock Exchange. Set out below is a summary of such principal additional requirements which apply to our Company:

**Compliance advisor**

A company seeking listing on the Hong Kong Stock Exchange is required to appoint a compliance advisor acceptable to the Hong Kong Stock Exchange for the period from the date of submitting the listing application to the date of sending of annual report to the shareholders for the first full year's financial results, to provide the company with professional advice on continuous compliance with the Hong Kong Listing Rules and all other applicable laws, regulations, rules, codes and guidelines.

If the Hong Kong Stock Exchange is not satisfied that the compliance advisor is fulfilling its responsibilities adequately, it may require the company to terminate the compliance advisor's appointment and appoint a replacement.

The compliance advisor must keep the company informed on a timely basis of changes in the Hong Kong Listing Rules and any new or amended law, regulation or code in Hong Kong applicable to the company. It must act as the company's principal channel of communication with the Hong Kong Stock Exchange if the authorised representatives of the company are expected to be frequently outside Hong Kong.

**Accountants' report**

Generally speaking, the preparation of accountants' report shall be required to conform to Hong Kong Financial Reporting Standards or International Financial Reporting Standards or China Accounting Standards for Business Enterprises.

**Process agent**

Our Company is required to appoint and maintain a person authorised to accept service of process and notices on its behalf in Hong Kong throughout the period during which its securities are listed on the Hong Kong Stock Exchange and must notify the Hong Kong Stock Exchange of his appointment, the termination of his appointment and his contact particulars.

**Public shareholdings**

If at any time there are existing issued securities of a PRC issuer other than foreign shares which are listed on the Hong Kong Stock Exchange, the Hong Kong Listing Rules require that the aggregate amount of H shares and other securities held by the public must constitute not less than 25.0% of the PRC issuer's issued share capital and that the class of securities for which listing is sought must not be less than 15.0% of the issuer's total issued share capital, having an expected market capitalisation at the time of listing of not less than HK$50 million. The Hong Kong Stock Exchange may, at its discretion, accept a lower percentage of between 15.0% and 25.0% in the case of issuers with an expected market capitalisation at the time of listing of over HK$10,000 million.

**Independent non-executive directors and supervisors**

The independent non-executive directors of a PRC issuer are required to demonstrate an acceptable standard of competence and adequate commercial or professional expertise to ensure that the interests of the general body of shareholders will be adequately represented. The supervisors of a PRC issuer must have the character, expertise and integrity and be able to demonstrate a standard of competence commensurate with their position as supervisors.

**Restrictions on purchase and subscription of its own securities**

Subject to governmental approvals and the provisions of the Articles of Association, our Company may repurchase our own H Shares on the Hong Kong Stock Exchange in accordance with the provisions of the Hong Kong Listing Rules. Approval by way of special resolution of the holders of Domestic Shares and the holders of H Shares at separate class meetings conducted in accordance with the Articles of Association is required for share repurchases. In seeking approvals, our Company is required to provide information on any proposed or actual purchases of all or any of our equity securities, whether or not listed or traded on the Hong Kong Stock Exchange. The directors must also state the consequences of any purchases which will arise under either or both of the Takeovers Code and any similar PRC law of which they are aware, if any. The shares involved in any general mandate given to the Directors to repurchase H Shares must not exceed 10.0% of the total amount of existing issued H Shares.

**Mandatory Provisions**

With a view to increasing the level of protection afforded to investors, the Hong Kong Stock Exchange requires the incorporation, in the articles of association of a PRC company whose primary listing is on the Hong Kong Stock Exchange, of the Mandatory Provisions and provisions relating to the change, removal and resignation of auditors, class meetings and the conduct of the supervisory committee of the company. Such provisions have been incorporated into the Articles of Association, a summary of which is set out in the appendix headed "Appendix V — Summary of Articles of Association" to this prospectus.

**Redeemable Shares**

Our Company must not issue any redeemable Shares unless the Hong Kong Stock Exchange is satisfied that the relative rights of the holders of the H Shares are adequately protected.

**Right of First Refusal**

Except in the circumstances mentioned below, the directors are required to obtain the approval by a special resolution of Shareholders in general meeting, and the approvals by special resolutions of the holders of Domestic Shares and H Shares (each being otherwise entitled to vote at general meetings) at separate class meetings conducted in accordance with the Articles of Association, prior to authorising, allotting, issuing or granting shares or securities convertible into shares, or options, warrants or similar rights to subscribe for any shares or such convertible securities.

No such approval will be required under the Hong Kong Listing Rules, but only to the extent that, the existing shareholders of our Company have by special resolution in general meeting given a mandate to the Directors, either unconditionally or subject to such terms and conditions as may be specified in the resolution, to authorise, allot or issue, either separately or concurrently once every 12 months, not more than 20.0% of the existing Domestic Shares and H Shares as of the date of the passing of the relevant special resolution or of such Shares that are part of our plan at the time of our establishment to issue Domestic Shares and H Shares and which plan is implemented within 15 months from the date of approval by the CSRC.

**Supervisors**

Our Company is required to adopt rules governing dealings by the Supervisors in securities of our Company on terms no less exacting than those of the model code (set out in Appendix 10 to the Hong Kong Listing Rules) issued by the Hong Kong Stock Exchange.

Our Company is required to obtain the approval of the Shareholders in a general meeting (at which the relevant Supervisor and his associates shall not vote on the matter) prior to our Company or any of our subsidiaries entering into a service contract of the following nature with a supervisor or proposed supervisor of our Company or our subsidiaries: (i) the contract is for a duration that may exceed three years; or (ii) the contract expressly requires our Company to give more than one year's notice or to pay compensation or make other payments equivalent to more than one year's emoluments.

The nomination and remuneration committee of our Company or an independent board committee must form a view in respect of service contracts that require Shareholders' approval and advise Shareholders (other than shareholders with a material interest in the service contracts and their associates) as to whether the terms are fair and reasonable, advise whether such contracts are in the interests of our Company and the Shareholders as a whole and advise Shareholders on how to vote.

**Amendment to the Articles of Association**

Our Company is required not to permit or cause any amendment to be made to the Articles of Association which would cause the same to cease to comply with the Hong Kong Listing Rules and the Mandatory Provisions or the Company Law.

**Documents for inspection**

Our Company is required to make available at a place in Hong Kong for inspection by the public and shareholders free of charge, and for copying by Shareholders at reasonable charges of the following:

- a complete duplicate register of Shareholders;
- a report showing the state of the issued share capital of our Company;
- our Company's latest audited financial statements and the reports of the Directors, auditors and supervisors (if any) thereon;
- special resolutions of our Company;
- reports showing the number and nominal value of securities repurchased by our Company since the end of the last financial year, the aggregate amount paid for such securities and the maximum and minimum prices paid in respect of each class of securities repurchased (with a breakdown between Domestic Shares and H Shares);
- copy of the latest annual report filed with the SAIC or other competent PRC authorities; and
- for Shareholders only, copies of minutes of meetings of Shareholders.

**Receiving agents**

Our Company is required to appoint one or more receiving agents in Hong Kong and pay to such agent(s) dividends declared and other monies owing in respect of the H Shares to be held, pending payment, in trust for the holders of such H Shares.

**Statements in listing documents and share certificates**

Our Company is required to ensure that all of our listing documents and share certificates include the statements stipulated below and to instruct and cause each of our Share registrars not to register the subscription, purchase or transfer of any of our Shares in the name of any particular holder unless and until such holder delivers to such Share registrar a signed form in respect of such Shares bearing statements to the following effect that the acquirer of the Shares:

- agrees with our Company and each Shareholder of our Company, and our Company agrees with each Shareholder of our Company, to observe and comply with the Company Law, the Special Regulations, the Articles of Association and other relevant laws and administrative regulations;

- agrees with our Company, each Shareholder, Director, supervisor and officer of our Company, and our Company acting for itself and for each Director, supervisor and officer of our Company agrees with each Shareholder, 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 our Company to arbitration in accordance with the 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;

- agrees with our Company and each Shareholder of our Company that the H Shares are freely transferable by the holder thereof; and

- authorises our Company to enter into a contract on his behalf with each Director and officer of our Company whereby each such Director and officer undertakes to observe and comply with his obligation to Shareholders as stipulated in the Articles of Association.

**Compliance with the Company Law, the Special Regulations and the Articles of Association**

Our Company is required to observe and comply with the Company Law, the Special Regulations and the Articles of Association.

**Contract between our Company and its Directors, officers and supervisors**

Our Company is required to enter into a contract in writing with every Director and officer containing at least the following provisions:

- that the Director or officer is required to observe and comply with the Company law, the Special Regulations, the Articles of Association, the Takeovers Code and an agreement with our Company that remedies shall be provided in accordance with the Articles of Association and that neither their contract nor their office is capable of assignment;
- an undertaking by the Director or officer, acting as agent for each Shareholder, to our Company to observe and comply with his obligations to Shareholders as stipulated in the Articles of Association;
- an arbitration clause which provides that whenever any differences or claims arise from that contract, 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 our Company between our Company and the Directors or officers and between a holder of H Shares and a Director or officer of our Company, such differences or claims will be referred to arbitration at either the CIETAC in accordance with its rules or the HKIAC in accordance with its securities arbitration rules, at the election of the claimant and that once a claimant refers a dispute or claim to arbitration, the other party must submit to the arbitration body elected by the claimant. Such arbitration will be final and conclusive;
- if the party seeking arbitration elects to arbitrate the dispute or claim at HKIAC, then either party may apply to have such arbitration conducted in Shenzhen according to the securities arbitration rules of HKIAC;
- PRC laws shall govern the arbitration of disputes or claims referred to above, unless otherwise provided by law or administrative regulations;
- the award of the arbitration body is final and shall be binding on the parties thereto;
- the agreement to arbitrate is made by the Director or officer with our Company on our own behalf and on behalf of each Shareholder; and
- any reference to arbitration shall be deemed to authorise the arbitral tribunal to conduct hearings in open session and to publish its award.

Our Company is also required to enter into a contract in writing with every supervisor containing statements in substantially the same terms.

**Subsequent listing**

Our Company must not apply for the listing of any of the H Shares on a PRC stock exchange unless the Hong Kong Stock Exchange is satisfied that the relative rights of the holders of foreign Shares are adequately protected.

**English translation**

All notices or other documents required under the Hong Kong Listing Rules to be sent by our Company to the Hong Kong Stock Exchange are required to be in the English language, or accompanied by a certified English translation.

**General**

If any change in the PRC law or market practices materially alters the validity or accuracy of any basis upon which the additional requirements have been prepared, then the Hong Kong Stock Exchange may impose additional requirements or make listing of the equity securities of a PRC issuer, including our Company, subject to special conditions as the Hong Kong Stock Exchange considers appropriate. Whether or not any such changes in the PRC law or market practices occur, the Hong Kong Stock Exchange retains its general power under the Hong Kong Listing Rules to impose additional requirement and make special conditions in respect of the Listing.

## OTHER LEGAL AND REGULATORY PROVISIONS

Upon Listing, the provisions of the SFO, the Takeovers Code and such other relevant ordinances and regulations as may be applicable to companies listed on the Hong Kong Stock Exchange will apply to our Company.

**Securities arbitration rules**

The Articles of Association provide that certain claims arising from the Articles of Association or the Company Law shall be arbitrated at either the CIETAC or the HKIAC in accordance with their respective rules. The securities arbitration rules of the HKIAC contain provisions allowing an arbitral tribunal to conduct a hearing in Shenzhen for cases in the following circumstances. Where any party applies for a hearing to take place in Shenzhen, the tribunal shall, where satisfied that such application is based on bona fide grounds, order the hearing to take place in Shenzhen conditional upon all parties including witnesses and the arbitrators being permitted to enter Shenzhen for the purpose of the hearing. Where a party (other than a PRC party) or any of its witnesses or any arbitrator is not permitted to enter Shenzhen, then the tribunal shall order that the hearing be conducted in any practicable manner, including the use of electronic communications. For the purpose of the securities arbitration rules, a PRC party means a party domiciled in the PRC.

Any person wishing to have detailed advice on PRC law or the laws of any jurisdiction is recommended to seek independent legal advice.

## SUMMARY OF ARTICLES OF ASSOCIATION

Our Company is a joint stock company incorporated under the PRC Company Law (the "**Company Law**") with limited liability on 25 December 2015.

The Articles of Association (the "**Articles of Association**") include its constitutional documents.

This attachment contains the summary of the principal provisions of the Articles of Association of our Company passed on 2 May 2016 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 attachment 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 the two paragraphs of "Appendix VII — Documents Delivered to the Registrar of Companies in Hong Kong", the full text in Chinese of the Articles of Association is available for reference.

## I. DIRECTORS AND BOARD OF DIRECTORS

### 1. 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.

### 2. 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 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.

### 3. 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:

1) An offer is made to all the Shareholders of our Company; or

2) 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.

**4. 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 related persons.

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:

1) The lender unknowingly provides loans to personnel related to the Directors, Supervisors and senior management of our Company or our parent company; or

2) 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:

1) Our Company provides our subsidiaries with loans or loan guarantees;

2) 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

3) 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 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.

**5. Financial assistance provided for acquisition of the Shares of our Company or our its subsidiaries**

Pursuant to the Articles of Association:

1) Our Company or its subsidiaries shall not, by any means at any time, provide any financial assistance to personnel who acquires or plans to acquire the Shares of the Company. Such personnel includes anyone who directly or indirectly assumes obligations from acquiring the Shares of the Company.

2) 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:

1) 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 of our Company or is incidental to a master plan of our Company;

2) Lawful distribution of our properties by our Company by way of dividend;

3) Distribution of dividends in the form of Shares;

4) Reduction of registered capital, repurchase of Shares or adjustments of our shareholding structure pursuant to the Articles of Association;

5) 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;

6) 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:

1) "Financial assistance" includes, but is not limited to:

   A. Gift;

   B. 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;

   C. 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

   D. 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

2) "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.

**6. Disclosure of matters relating to the contractual rights of our Company or its any subsidiaries 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 such matter 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.

**7. 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:

1) Remuneration as the Directors, Supervisors or senior management of our Company;

2) Remuneration as the Directors, Supervisors or senior management of the subsidiaries of our Company;

3) Remuneration for providing other services for management of our Company and our subsidiaries;

4) 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.

**8. Resignation, appointment and removal**

None of the following persons shall serve as a Director, Supervisor, general manager or other senior management of our Company:

1) Anyone who has no civil capacity or has limited civil capacity;

2) 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;

3) Anyone who has served as director, factory manager or manager of a company or enterprise that is bankrupt and liquidated, 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;

4) 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;

5) Anyone who owes a huge amount of overdue debt;

6) Anyone who is under criminal investigation by a judicial organisation for violating the criminal law and whose case is pending;

7) Anyone who cannot serve as management of a company under laws and administrative rules;

8) Anyone who is not a natural person;

9) 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;

10) 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 as a permanent body of the company for making business decisions and shall be accountable to the general meeting, which consists of 9 Directors, including 3 executive Directors, 3 non-executive Directors and 3 independent non-executive Directors.

The 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.

**9. 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 1) the provision regarding the power of the Directors to develop schemes for our Company to issue bonds, and 2) the provision that the bond issue must be approved by the Shareholders through a special resolution at the general meeting.

**10. 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 and senior management, our Company has the right to take the following measures in addition to various rights and remedial measures stipulated in legal and administrative regulations:

1) To require related Directors, Supervisors and senior management to compensate our Company for losses sustained as a result of their neglect of duty;

2) To rescind any contract or transaction entered into between our Company and related Directors, Supervisors and 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 and senior management acting violated their obligations owed to our Company;

3) To require the relevant Directors, Supervisors and senior management to turn over the benefit obtained from the violation of their obligations;

4) To recover funds collected by the relevant Directors, Supervisors and senior management that should have been collected for our Company, including but not limited to commissions;

5) To require the relevant Directors, Supervisors and senior management to return the interest earned or that may be earned from funds that should have been paid to our Company;

The Board of Directors shall comply with laws, administrative regulations, the Articles of Association and resolutions of the general meeting in performing its duties. When performing their responsibilities, the Directors, Supervisors and senior management of the Company 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:

1) To act honestly in the best interests of our Company;

2) To exercise one's rights within but not exceeding the scope of authority;

3) 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;

4) To treat Shareholders of the same class equally and to treat Shareholders of different classes fairly;

5) 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;

6) Not to use properties of our Company in any manner for his/her own benefit without consent of general meeting on an informed basis;

7) 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;

8) Not to accept commissions in connection with transactions of our Company unless agreed by the general meeting on an informed basis;

9) 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;

10) Not to take advantage of their positions to seek for themselves or others any business opportunities that are due to the Company, or conduct for themselves or others any businesses similar to those of the Company, or not to compete with our Company in any manner unless agreed by the general meeting on an informed basis;

11) 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;

12) 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 or the Board of Directors;

13) Not to use their connected relations to damage the interests of the Company;

14) 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: A) disclosure is required by laws; B) disclosure is required by public interests; C) disclosure is required by the interests of the Director, Supervisor, general manager and 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:

1) Spouses or minor children of the Directors, Supervisors, general manager or other senior management of our Company;

2) Trustees of the Directors, Supervisors, general manager or other senior management of our Company or the persons referred to in item 1) above;

3) Partners of the Directors, Supervisors, general manager or other senior management of our Company or persons referred to in items 1) and 2) above;

4) Companies under de facto control by the Directors, Supervisors, general manager or other senior management of the Company individually or jointly with one or more persons or any other Directors, Supervisors, general manager or other senior management of the Company referred to in items (i), (ii) and (iii) above; or

5) The Directors, Supervisors, general manager and other senior management of the controlled company referred to in item 4) 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 or 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:

1) They may not cause our Company to operate beyond the scope of business indicated on our business license;

2) They shall act honestly in the best interests of our Company;

3) They may not deprive our Company of our properties in any manner, including, but not limited to, opportunities beneficial to our Company;

4) 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.

## II. 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.

The Company shall amend these Articles of Association in any of the following circumstances:

1) after the amendments are made to the Company Law or other relevant laws, these Articles of Association run counter to the said amendments;

2) the Company's conditions have changed, and such change rending these Articles of Association inconsistent;

3) the general meeting has resolved to amend these Articles of Association.

Except as otherwise provided in these Articles of Association of the Company, these Articles of Association of the Company shall be amended by the following procedures:

1) the Board of Directors adopts a resolution in accordance with these Articles of Association and drafts the amendments, or a shareholders puts forward a motion to amend the Articles of Association;

2) the shareholders are notified of the amendments and a general meeting is convened to vote thereon;

3) the amendments submitted to the general meeting for a vote shall be adopted by a special resolution.

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.

## III. 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:

1) 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;

2) 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;

3) Cancelling or reducing rights to dividends generated or rights to cumulative dividends attached to such class of Shares;

4) 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;

5) Increasing, cancelling or reducing share conversion rights, options, voting rights, transfer or pre-emptive rights, rights to acquire securities of our Company attached to such class of Shares;

6) Cancelling or reducing rights to receive payment by our Company in specified currencies attached to such class of Shares;

7) Creating new class of Shares having voting or distribution rights, or other privileges equal or superior to those of such class of Shares;

8) Imposing restrictions on the transfer or ownership of such class of Shares or increase such restrictions;

9) Issuing subscription or conversion rights for such or other class of Shares;

10) Increasing the rights and privileges of other class of Shares;

11) The reorganisation plan of our Company may constitute assumption of responsibilities by different classes of Shareholders disproportionately in a reorganisation;

12) 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 2) to 8), 11) and 12) 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:

1) 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;

2) 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;

3) Upon the approval by the State Council or the approval authority authorised by it, the Shares of the Company 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:

1) 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 Shareholder(s) as defined in the Articles of Association;

2) if Shares are repurchased by an agreement other than on the Hong Kong Stock Exchange, it shall me the Shareholders involved in the agreement;

3) 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.

**IV. 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.

The following matters shall be resolved by way of ordinary resolutions at a general meeting:

1) Work reports of the Board of Directors and the supervisory committee;

2) Profit distribution plan and loss make-up plan formulated by the Board of Directors;

3) Appointment or dismissal of the members of the Board of Directors and supervisory committee, remuneration and payment methods thereof;

4) Annual preliminary and final budgets of the Company;

5) Balance sheet, income statement and other financial statements;

6) The Company's annual report;

7) Matters other than those requiring approval by special resolutions in accordance with the laws or the Articles of Association.

The following matters shall be resolved by way of special resolutions at a general meeting:

1) Increase or reduction of the registered capital of the Company and issue of shares of any class, stock warrants and other similar securities;

2) Issuance of corporate bonds;

3) Demerger, merger, dissolution and liquidation or change in the form of the Company;

4) Amendments to the Articles of Association;

5) Any other matters as required by the laws, administrative regulations or the Articles of Association of the Company and matters which, if resolved by way of an ordinary resolution at a general meeting, will have a material impact on the Company and need be adopted by way of special resolutions.

## V. 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.

## VI. 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.

## VII. ACCOUNTING AND AUDIT

### 1. 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 laws, administrative regulations and directives promulgated by competent regional and central governmental authorities.

Apart from the CAS 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 general meeting. Each Shareholder shall be entitled to have a copy of the financial reports. The financial reports mentioned in this provision shall include the Board of Directors' report, together with a balance sheet (including every document required by law to be annexed thereto) and profit and loss account or income and expenditure account, or (subject to relevant PRC laws) the summary financial report approved by the Hong Kong Stock Exchange. Each shareholder of the Company shall have the right to obtain a copy of the financial reports referred to in this Chapter.

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 general meeting.

Any interim results or financial information published or disclosed by our Company must also be prepared and presented in accordance with CAS and regulations, and also in accordance with either international accounting standards or that of the place overseas where our Company's Shares are listed. If there are material differences in the financial statements prepared in accordance with these two sets of accounting standards, such differences shall be stated in the notes to such financial statements. For purposes of the Company's distribution of after-tax profits of a given fiscal year, the lesser of the amounts of after-tax profits shown in the aforementioned two kinds of financial statements shall govern.

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 persons.

**2. 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. When the inauguration assembly of the Company does not exercise its power stipulated by this provision, the Board of Director will exercise this power.

The accounting firm appointed by the Company shall have the following rights:

1) a right to access the account books, records or vouchers at any time, and to ask Directors, general managers or other senior management of the Company to provide relevant documents and explanations;

2) a right to require the Company to take all reasonable actions to obtain from its subsidiaries any information and explanations necessary for the discharge of its duties;

3) a right to be present at a general meeting and to receive notices of, and information relating to, any general meeting which any shareholder is entitled to receive, and to speak at any general meeting for matters in relation to its capacity as the Company's accounting firm.

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 remuneration of an accounting firm or the manner in which such firm is to be remunerated shall be determined at the general meeting. The remuneration of an accounting firm appointed by the Board of Directors shall be determined by the Board of Directors.

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:

1) 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

2) 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 2), 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 2), 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.

## VIII. 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 and 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 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:

1) 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 (i.e. 6 persons) required by the Articles of Association;

2) where the unrecovered losses of our Company amount to one-third of its total share capital;

3) where Shareholders severally or jointly holding 10% or more of our Company's Shares make a request in writing to convene an extraordinary general meeting;

4) where the Board considers it necessary or the Supervisory Committee proposes to call for such a meeting;

5) when proposed by more than half of all the independent non-executive Directors of the Company;

6) 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 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. After the notification of the announcement, the Company may convene the general meeting. 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:

1) specified time, venue and duration of the meeting;

2) specified matters to be deliberated at the meeting;

3) 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;

4) in the event that any of the Directors, Supervisors and 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 the 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;

5) inclusion of the full text of any special resolution to be proposed and passed at the meeting;

6) a clear explanation that the Shareholders entitled to attend and vote are entitled to appoint one or more shareholders' proxy to attend and vote at the meeting on his/her behalf and that such may not necessarily be Shareholders;

7) specified delivery time and place of the power of attorney for proxy voting of the meeting.

8) specify the record date for determining the shareholders who are entitled to attend the general meeting;

9) state the names and telephone numbers of the standing contact persons for the meeting.

The notice of the general meeting shall be sent in person or by postage-paid mail, to the Shareholders regardless of whether 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:

1) 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.

2) if the Board fails to issue a notice of convening a meeting within 30 days upon receipt of the aforesaid writing 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 deducted from the payments owned by the Company to negligent directors.

The following matters shall be approved by the general meeting through ordinary resolutions:

1) work reports of the Board and the Supervisory Committee;

2) plans formulated by the Board for the distribution of profits and for making up losses;

3) 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;

4) annual preliminary and final budgets of our Company;

5) balance sheets, income and other financial statements;

6) annual report of the Company;

7) matters other than those required by the laws, administrative regulations or the Articles of Association to be passed by special resolutions.

The following matters shall be resolved by a special resolution at the general meeting:

1) the increase or decrease in our Company's share capital, and issue of Shares of any class, warrants and other similar securities;

2) the issue of bonds of our Company;

3) division, merger, dissolution and liquidation of our Company or change in form of our Company;

4) the amendment to the Articles of Association of our Company;

5) any other matters as required by the laws, administrative regulations or the Articles of Association of the Company and matters which, if resolved by way of an ordinary resolution at a general meeting, will have a material impact on the Company and need be adopted by way of special resolutions.

## IX. 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 transfer of Shares on the stock exchange outside the PRC do not require a voting at any class meeting.

The Shares of the Company held by the promoters may not be transferred within one (1) year of our establishment.

The Directors, Supervisors and senior management of the Company shall report to our Company the number of Shares held by them as well as any subsequent changes in their Shareholdings. The 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 of the Company owned by them. The above personnel may not transfer the Shares of the Company held by them within six months after resignation.

## X. OUR COMPANY'S RIGHT TO PURCHASE ITS OWN SHARES

Our Company may, subject to the requirements of laws, administrative regulations, the Listing Rules of the Hong Kong Stock Exchange and the Articles of Association, and with the approval of the relevant governing authority of the State, repurchase its Shares of the Company under the following circumstances:

1) cancellation of Shares for the purposes of reducing the capital of our Company;

2) merging with another company that holds Shares in our Company;

3) awarding of Shares to the employees of our Company;

4) objection of its Shareholders against the resolutions in relation to our Company's merger and division made at the general meeting and at their request of acquisition of its Shares; or

5) other circumstances permitted by laws and administrative regulations.

The Shares repurchased by our Company according to clause 1), 2) and 4) of the preceding paragraph shall be cancelled within the period prescribed by the law and administrative regulations, and 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 3) of the preceding paragraph shall not exceed 5% of its total issued Shares; the money used for purchasing shall be paid from its profit after tax; and its purchased 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:

1) by making an offer for the repurchase to all its Shareholders on a pro rata basis;

2) by the repurchase through public dealing on a stock exchange;

3) by the repurchase outside of the stock exchange by means of an off-market agreement.

With prior approval of the Shareholders in a general meeting, our Company may repurchase Shares outside by means of an off-market contract. 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) agreements consenting to become liable to repurchase Shares or having the right to repurchase Shares.

Our Company shall not assign any contract for the repurchase of its Shares or any power pursuant to the contract. Unless our Company is in the course of liquidation, it must comply with the following provisions in relation to repurchase of its outstanding Shares:

1) where our Company repurchases Shares at the price of par value, payment shall be made out of the book balance on the distributable profits of our Company or out of the proceeds of the new issue of Shares made for that purpose;

2) where our Company repurchases Shares at a price higher than its par value, payment equivalent to the par value may be made out of the book balance 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 the price of par value, payment shall be made out of the book balance on the distributable profits of our Company;

   B. if our Shares being repurchased were issued at a price higher than its par value, payment shall be made out of the book balance 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 the old Shares repurchased nor shall it exceed the amount 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;

3) our Company shall make the following payments out of our Company's distributable profits:

   A. payment for the acquisition of the rights to repurchase Shares;

   B. payment for the variation of any contract to repurchase Shares;

   C. payment for the release of the Company's obligation under any repurchase contract.

4) 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 the repurchase of partial par value of Shares shall be recorded into 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.

## XI. THERE ARE NO PROVISIONS IN THE ARTICLES OF ASSOCIATION PREVENTING OWNERSHIP OF SHARES IN OUR COMPANY BY A SUBSIDIARY

## XII. 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 handled in accordance with relevant provisions concerning the state foreign exchange administration.

## XIII. 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 proxy or proxies to attend the general meetings and vote on behalf of him. A proxy so appointed shall enjoy the following rights pursuant to authorisation by that Shareholder:

1) the Shareholders' right to speak at the general meeting;

2) the right to demand or join in demanding a poll;

3) 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 entrusted 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 of appointment by which a shareholder appoints another person to attend a general meeting shall specify the following particulars:

1) the names of the principal and the proxy;

2) the number of shares of the principal that the proxy represents;

3) whether the proxy has the right to vote;

4) separate instructions as to whether to vote for, vote against, or abstain from voting on, each item included on the agenda of the general meeting as an item for consideration thereat;

5) whether the proxy has the right to vote on extempore motions that may be added to the agenda of the meeting and the specific instructions as to what vote to cast if he or she has such right to vote;

6) the date of issuance and term of validity of the instrument of appointment;

7) the signature (or seal) of the principal; if the principal is a legal person shareholder, the power of attorney shall bear the seal of the legal person.

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 authorisation documents shall be notarially certified. The notarially certified power of attorney and other authorisation 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.

If the shareholder is a Recognised Clearing House (or an agent thereof), one or more individuals that it deems suitable may be appointed by it to act as it its representative(s) at any general meeting or any class shareholders' meeting; however, if one or more individuals are appointed as representatives, their powers of attorney shall specify the number and class of shares involved in the appointment of each such individual. The individual(s) so appointed may exercise the rights of the Recognised Clearing House (or its agent) as if he, she or they was or were (an) individual shareholder(s) of the Company.

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. Save as provided above, the form shall also contain the followings: number of shares represented by and name of the proxy; whether voting power is granted to the proxy; whether the proxy is entitled to votes for the temporary resolution proposed at any general meeting; instruction of voting if voting power granted; date of appointing a proxy and the effective period for such appointment. Where a shareholder appoints more than one proxy, he shall specify the number of shares represented by each proxy in the form.

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.

## XIV. 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 participate in 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 the expiration of the applicable period.

## XV. 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 organisations 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 keep a complete register of Shareholders.

The register of Shareholders shall include:

1) the register of Shareholders maintained at our Company's domicile (other than those described in item 2) and 3) below);

2) 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

3) the register of Shareholders maintained at such other place as our Board of Directors 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 convening 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 information, including, but no limited to:

1) the right to obtain a copy of the Articles of Association, subject to payment of costs;

2) 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;

3) our Company's issued equity position;

4) 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;

5) minutes of the general meetings;

6) upon termination or liquidation of the Company, to participate in the distribution of the remaining property of the Company in proportion to the quantity of shares held by them;

7) to request that the Company purchase their shares when they oppose a resolution on the merger or division of the Company adopted at a general meeting.

Our Company shall make the above documents available at our Company's domicile and place of business in Hong Kong for inspection by shareholders.

## XVI. 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 of the Company carrying voting rights, our Company may convene the general meeting.

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 such class of Shares carrying voting rights, our Company may convene the class meeting.

## XVII. 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 issues in a manner prejudicial to the interests of all or part of the Shareholders:

1) to remove the responsibilities of a Director and Supervisor to act honestly in the best interests of our Company;

2) to approve the expropriation by a Director and 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

3) to approve the expropriation by a Director and 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.

## XVIII. PROCESS OF DISSOLUTION AND LIQUIDATION

Our Company will be dissolved for the following reasons:

1) A resolution for dissolution is passed by Shareholders at a general meeting;

2) Dissolution is necessary due to a merger or division of our Company;

3) The Company is declared bankrupt due to its failure to repay debts due;

4) Our Company's business license is cancelled or it is ordered to shut down or to be dissolved according to the laws;

5) 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 item 1), 2), 4) or 5) 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. Where the Company is dissolved pursuant to item 3), the people's court shall, according to the relevant laws, order the formation of a liquidation committee comprising members from the shareholders of the Company, relevant authorities and professionals to process 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, all duties and powers of the Board of the Company 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 incomes 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 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:

1) To categorise our Company's assets and prepare a balance sheet and an inventory of assets respectively;

2) To notify the creditors or to publish public announcements;

3) To dispose of and liquidate any pending businesses of our Company;

4) To pay outstanding taxes and the taxes arising during the process of liquidation;

5) To settle claims and debts;

6) To deal with the surplus assets remained after repayment by our Company of debts; and

7) To represent our Company in any civil proceedings.

After it has categorised our Company's assets and 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 apply to the people's court for a declaration of bankruptcy if it becomes aware, having categorised 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 incomes 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 people's court for confirmation. The liquidation committee shall, within 30 days after the confirmation by the general meeting or the people's court, 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.

## XIX. OTHER IMPORTANT PROVISIONS FOR OUR COMPANY OR THE SHAREHOLDERS

### 1. 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 is a legally binding document used for standardising the Company's organisation and behaviors and relationship of rights and obligations between the Company and shareholders and between shareholders. The shareholders may bring a suit against the Company in accordance with the rights and liabilities concerning the Company's matters conferred in the Articles of Association, and vice versa, the shareholders may also prosecute against each other according to these rights and liabilities. The shareholders may also sue the Directors, Supervisors and senior management of the Company. The suits referred to in the Articles of Association include prosecutions brought to the court and to the arbitration authority for arbitration.

**2. Shares and transfers**

Foreign investors referred to in the Article of Association mean those investors from 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 People's Republic of China (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:

1) To offer new Shares to unspecified investors;

2) To place new Shares with existing Shareholders;

3) To allot bonus Shares to its existing Shareholders;

4) To issue new Shares to particular investors;

5) To convert the reserves into share capital; and

6) 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.

**3. Shareholders**

A Shareholder of our Company is a person who lawfully holds the Shares and has his/her name (title) recorded on the register of Shareholders.

A Shareholder enjoys rights and undertakes obligations according to the class and number of Shares he/she holds. Holders of the same class of Shares enjoy the same rights and undertake the same obligations.

The ordinary Shareholder of our Company shall enjoy the following rights:

1) To receive dividends and other distributions in proportion to the number of Shares held;

2) To legally request, convene, chair, attend or appoint a proxy to attend the general meetings and to exercise the voting right thereat;

3) To supervise and manage our business and operational activities, provide suggestions or submit queries;

4) To transfer, giving for free or making liens of Shares held in accordance with the laws, administrative regulations and the Articles of Association;

5) To obtain relevant information in accordance with the provisions of the Articles of Association;

6) 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;

7) To require our Company to buy back Shares when holding qualifications toward resolutions in respect of a merger or separation at a general meeting;

8) 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;

9) 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 issued 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 also be printed in mechanical form.

Any person who is registered Shareholder or who requests in respect of the Shares of the Company 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:

1) The applicant shall submit an application 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 certificate and declaring that no other person is entitled to be registered as a Shareholder in respect of the Relevant Shares.

2) 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 such Shares has been received.

3) 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.

4) 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.

5) If, by the expiration of the 90-day period referred to in above items 3) and 4), our Company shall not have received from any person notice of any disagreement to the reissuance of share certificate, our Company may issue a replacement new share certificate to the applicant accordingly.

6) Where our Company issues a replacement new share certificate under this provision, it shall forthwith cancel the original share certificate and enter the cancellation and replacement issue into the register of Shareholders accordingly.

7) 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.

**4. 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, shares of a holder of foreign shares listed overseas who is untraceable, subject to and conditional upon:

1) 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

2) 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 one or more newspapers in the listing place of the Company and notifies the Hong Kong Stock Exchange of such intention.

**5. The Board**

The Board shall exercise the following functions and powers:

1) To convene the general meeting, propose relevant matters at the general meeting, and report on its work at the general meeting;

2) To implement the resolutions of the general meeting;

3) To decide on our Company's operating plans, investment plans, detailed annual operating objectives, and financing plans other than by ways of issue of corporate bonds or other securities and of listing;

4) To formulate our Company's proposed annual financial budget and final accounts;

5) To formulate our Company's profit distribution plan and plan for making up for losses;

6) 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;

7) 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;

8) To decide on the establishment of our Company's internal management organisation;

9) 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;

10) To decide on the proposals for salaries, benefits, incentives and punishments of our Company's staff;

11) 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 (candidates) representing Shareholders of the Company's controlling subsidiaries and associated companies;

12) To formulate our Company's basic management system;

13) To propose plans for the amendment to the Articles of Association of our Company;

14) To determine the establishment of our Company's domestic or overseas branches;

15) To decide on the matters such as merger, division, reorganisation or dissolution of our Company's wholly-owned subsidiaries and controlling subsidiaries;

16) To decide on the establishment of special committees under the Board and to appoint or remove its person-in-charge;

17) To propose at the general meetings a resolution in respect of candidates for independent Directors and replacement of independent Directors;

18) To propose at the general meetings for the appointment, renewal or remove of accounting firm conducting auditing for our Company;

19) To hear the work report and inspect the work of the general manager;

20) To manage information disclosure of our Company;

21) To formulate the equity incentive plan;

22) 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 value increment and equity transfer of the invested enterprises), financing, risk management and trust management, external guarantees, etc.;

23) To establish and review our Company's corporate governance policies and practices;

24) To review and supervise the training and sustained professional development of our Company's Directors, Supervisors and senior management;

25) To review and supervise our Company's policies and practices in connection with compliance with laws and regulatory requirements;

26) To establish, review and supervise the codes of conduct and compliance handbook (if any) applicable to employees and Directors;

27) To review our Company's compliance with the Code on Corporate Governance Practices and the disclosures made in the Corporate Governance Report;

28) 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;

29) To exercise other functions and powers as granted by the Articles of Association or the general meetings;

30) To conduct other matters as required by PRC laws and regulations.

Except for the matters specified in item 6), 7) and 13) which shall be passed by more than two-thirds of the Directors, the resolutions of the Board in respect of any other aforesaid matters may be passed by more than half 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 once in the first and second half of every 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 authorisation.

Directors attending meetings shall exercise their powers as Directors within their scope of authorisation. 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.

**6. Independent Directors**

Our Company shall establish a Board. The Board shall comprise 9 Directors, including 3 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.

**7. Secretary of the Board**

Our Company shall have one 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.

**8. Supervisory Committee**

Our Company shall have a Supervisory committee.

The Supervisory Committee shall be composed of 7 members, including 2 Supervisors representing Shareholders, 2 independent Supervisors and 3 Supervisors representing employees, one of whom is chairman of the Supervisory Committee.

The election or removal of the chairman of the Supervisory Committee shall be decided by more than two-thirds (inclusive) of the Supervisors. Decisions of the Supervisory Committee shall be made by the affirmative vote of more than two-thirds of the Supervisors.

The terms of office of Supervisors shall be three years, renewable upon re-election.

Directors and 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:

1) To review the periodic reports of the Company prepared by the Board of Directors and express its written opinion;

2) To check the financial condition of the Company, and, when necessary, it may appoint a separate accounting firm in the Company's name to independently review the Company's finances;

3) To monitor and inquire about the performance of duties by Directors, general manager and other senior management and propose dismissal of Directors and senior management who have violated laws, these Articles of Association or the resolutions of general meetings;

4) To require Directors, general manager and senior management to make corrections if their conduct has damaged the interests of the Company;

5) To propose the convening of extraordinary general meetings and, in case the Board does not perform the obligations to convene and preside over the general meetings in accordance with laws, to convene and preside over the general meetings;

6) To propose motions to the general meeting;

7) To initiate proceedings against Directors and senior management pursuant to relevant laws;

8) To conduct investigation if there is any unusual circumstances in the Company's operations; and if necessary, to engage an accounting firm, a law firm or other professional institutions to assist in their work. The reasonable expenses incurred in engaging a professional, such as a lawyer, certified public accountant, professional auditor, etc., by the Supervisory Committee in exercising its functions and powers shall be borne by the Company.

The Supervisors shall present at the Board meeting.

**9. 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:

1) To manage the daily business operations of the Company, organise and implement the Board's resolutions, and report to the Board;

2) To organise and implement the Company's annual operating plans and investment plans;

3) To prepare the plan for the establishment of internal management of the Company;

4) To prepare the plan of the basic management system of the Company;

5) To formulate the Company's basic rules;

6) To propose the Board to appoint or remove the vice general manager, chief finance officer of the Company;

7) To appoint or remove executives other than those appointed or removed by the Board;

8) To propose the convening of an extraordinary meeting of the Board;

9) To exercise other functions and powers conferred in the Articles of Association or by the Board.

**10. Reserves**

When the cumulated amount of the statutory reserve of our Company has reached more than 50% 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 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, save as those not to be distributed in proportion of their shareholdings as required by the Articles of Association.

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 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.

**11. Settlement of disputes**

Our Company shall adopt the following rules in dispute resolution:

1) 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 and 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 and 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.

2) 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.

3) The resolution of any dispute or claim of rights referred to in paragraph 1) above by arbitration shall be 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.

4) An arbitral award made by the arbitral body is final and binding on the parties.

## 1. FURTHER INFORMATION

### A. Incorporation

Our Company was established in the PRC as a limited liability company on 31 July 2002. On 25 December 2015, upon the approval from the Luzhou SASAC and upon registration with relevant government authorities, our Company was converted into a joint stock limited liability company, and was renamed as Luzhou Xinglu Water (Group) Co., Ltd.* (瀘州市興瀘水務(集團)股份有限公司). The registered office and headquarters of our Company in the PRC is No. 16, Baizi Road, Jiangyang District, Luzhou, the PRC (瀘洲市江陽區百子路16號).

Our Company has established a place of business in Hong Kong at 18/F Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong, and has been registered as a non-Hong Kong company under Part 16 of the Companies Ordinance on 12 September 2016. Ms. Ng Wing Shan has been appointed as the authorised representative of our Company under the Companies Ordinance for the acceptance of service of process on behalf of our Company in Hong Kong. Her address for acceptance of service of process is 18/F Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong.

As we are incorporated in the PRC, we are subject to the relevant laws and regulations of the PRC. A summary of the relevant aspects of PRC laws and principal regulatory provisions is set out in Appendix IV to this prospectus. A summary of our Articles of Association is set out in Appendix V to this prospectus.

### B. Changes in the registered capital of our Company

As at the date of establishment of our Company, the initial registered capital was RMB66.28 million, all of which was fully paid up.

On 25 December 2015, upon registration with Luzhou AIC, we were converted into a joint stock liability company with a registered capital of RMB600.00 million, all of which was fully paid up.

On 11 May 2016, upon registration with Luzhou AIC, the registered capital of our Company was increased from approximately RMB600 million to approximately RMB664.31 million.

Immediately upon the completion of the Global Offering, the registered capital of our Company will be RMB859,710,000, made up of 644,770,000 Domestic Shares and 214,940,000 H shares, with nominal value of RMB1.00 each.

Save as disclosed in this prospectus, there has been no alteration in the share capital of our Company within the two years immediately preceding the date of this prospectus.

## C. Changes in the registered capital of our Subsidiaries

### *(a) Subsidiaries of our Company*

Our Company's subsidiaries are referred to in the Accountants' Report, the text of which is set out in Appendix I to this prospectus.

### *(b) Changes in share capital of the subsidiaries of our Company*

The following alterations in the share capital or registered capital of our subsidiaries took place within the two years immediately preceding the date of this prospectus:

*Xinglu Wastewater Treatment*

On 6 May 2016, the registered capital of Xinglu Wastewater Treatment was increased from RMB166 million to RMB248 million, of which 98% was held by our Company.

*Beijiao Water*

On 17 May 2016, the registered capital of Beijiao Water was increased from RMB16,449,300 to RMB43,909,360, of which 86.78% was held by our Company.

Save as disclosed, there have been no changes in the share capital of any of the subsidiaries of our Company within the two years immediately preceding the date of this prospectus.

## D. Resolutions passed at our extraordinary Shareholders' meeting on 2 May 2016

At our extraordinary Shareholders' meetings held on 2 May 2016, among other things, the following resolutions were passed by the Shareholders:

(a) approving the issue of the H Shares by our Company and the Listing, whereby the number of H Shares to be issued shall not exceed a total of 221,440,000 H Shares (without taking into account the H Shares which may be issued upon the exercise of the Over-allotment Option) and subsequent listing of such H Shares on the Stock Exchange;

(b) the granting of the Over-allotment Option in respect of no more than 15% of the number of the H Shares issued as above-stated;

(c) subject to the completion of the Global Offering, the adoption of the Articles of Association which shall become effective on the Listing Date and the authorisation to our Board to amend the Articles of Association in accordance with the relevant laws and regulations and the requirements by the relevant government authorities; and

(d) authorising our Board to handle all other matters relating to, among other things, the issue of the H Shares and the Listing.

## 2. FURTHER INFORMATION ABOUT OUR BUSINESS

### A. Summary of our material contracts

We have entered into the following contracts (not being contracts entered into in the ordinary course of business) within two years preceding the date of this prospectus which are or may be material to our business and a copy of each has been delivered to the Registrar of Companies for registration:

(a) an equity transfer agreement dated 24 December 2015 entered into between Xu Xinhong (徐新紅) and our Company, pursuant to which, Xu Xinhong agreed to transfer to our Company the equity interest in Beijiao Water, corresponding to RMB10,000.00 of capital contributed by him, at a consideration of RMB17,411.00 (tax inclusive);

(b) an equity transfer agreement dated 24 December 2015 entered into between Yi Guo (易國) and our Company, pursuant to which, Yi Guo agreed to transfer to our Company the equity interest in Beijiao Water, corresponding to RMB6,250.00 of capital contributed by him, at a consideration of RMB10,881.88 (tax inclusive);

(c) an equity transfer agreement dated 24 December 2015 entered into between Yi Guo (易國) and our Company, pursuant to which, Yi Guo agreed to transfer to our Company the equity interest in Jiangnan Water, corresponding to RMB4,687.50 of capital contributed by him, at a consideration of RMB15,889.22 (tax inclusive);

(d) an equity transfer agreement dated 24 December 2015 entered into between Yi Guo (易國) and our Company, pursuant to which, Yi Guo agreed to transfer to our Company the equity interest in Nanjiao Water, corresponding to RMB23,144.50 of capital contributed by him, at a consideration of RMB26,796.70 (tax inclusive);

(e) an equity transfer agreement dated 24 December 2015 entered into between Yi Guo (易國) and our Company, pursuant to which, Yi Guo agreed to transfer to our Company the equity interest in Naxi Water, corresponding to RMB3,125.00 of capital contributed by him, at a consideration of RMB7,711.88 (tax inclusive);

(f) an equity transfer agreement dated 28 December 2015 entered into between Chen Chunming (陳春明) and our Company, pursuant to which, Chen Chunming agreed to transfer to our Company the equity interest in Beijiao Water, corresponding to RMB40,000.00 of capital contributed by him, at a consideration of RMB69,644.00 (tax inclusive);

(g) an equity transfer agreement dated 28 December 2015 entered into between Xiao Hongliang (肖洪亮) and our Company, pursuant to which, Xiao Hongliang agreed to transfer to our Company the equity interest in Beijiao Water, corresponding to RMB20,000.00 of capital contributed by him, at a consideration of RMB34,822.00 (tax inclusive);

(h) an equity transfer agreement dated 28 December 2015 entered into between Gao Jing (高靜) and our Company, pursuant to which, Gao Jing agreed to transfer to our Company the equity interest in Beijiao Water, corresponding to RMB25,000.00 of capital contributed by her, at a consideration of RMB43,527.50 (tax inclusive);

(i) an equity transfer agreement dated 28 December 2015 entered into between Chen Chunming (陳春明) and our Company, pursuant to which, Chen Chunming agreed to transfer to our Company the equity interest in Nanjiao Water, corresponding to RMB12,500.00 of capital contributed by him, at a consideration of RMB14,472.5 (tax inclusive);

(j) an equity transfer agreement dated 28 December 2015 entered into between Xiao Hongliang (肖洪亮) and our Company, pursuant to which, Xiao Hongliang agreed to transfer to our Company the equity interest in Nanjiao Water, corresponding to RMB35,951.00 of capital contributed by him, at a consideration of RMB41,624.07 (tax inclusive);

(k) an equity transfer agreement dated 28 December 2015 entered into between Gao Jing (高靜) and our Company, pursuant to which, Gao Jing agreed to transfer to our Company the equity interest in Nanjiao Water, corresponding to RMB29,922.50 of capital contributed by her, at a consideration of RMB34,644.27 (tax inclusive);

(l) an equity transfer agreement dated 28 December 2015 entered into between Chen Chunming (陳春明) and our Company, pursuant to which, Chen Chunming agreed to transfer to our Company the equity interest in Jiangnan Water, corresponding to RMB31,250.00 of capital contributed by him, at a consideration of RMB105,928.13 (tax inclusive);

(m) an equity transfer agreement dated 28 December 2015 entered into between Gao Jing (高靜) and our Company, pursuant to which, Gao Jing agreed to transfer to our Company the equity interest in Jiangnan Water, corresponding to RMB7,812.5 of capital contributed by her, at a consideration of RMB26,482.03 (tax inclusive);

(n) an equity transfer agreement dated 28 December 2015 entered into between Gao Jing (高靜) and our Company, pursuant to which, Gao Jing agreed to transfer to our Company the equity interest in Naxi Water, corresponding to RMB3,125.00 of capital contributed by her, at a consideration of RMB7,711.88 (tax inclusive);

(o) an equity transfer agreement dated 28 December 2015 entered into between Chen Chunming (陳春明) and our Company, pursuant to which, Chen Chunming agreed to transfer to our Company the equity interest in Sitong Design, corresponding to RMB5,000.00 of capital contributed by him, at a consideration of RMB5,224.00 (tax inclusive);

(p) an agreement dated 3 February 2016 entered into between our Company and Luzhou Zhongxu, pursuant to which, both parties agreed to, among other things, act in concert when exercising their shareholders' rights in Nanjiao Water;

(q) an agreement dated 3 February 2016 entered into between our Company and Luzhou Zhongxu, pursuant to which, both parties agreed to, among other things, act in concert when exercising their shareholders' rights in Jiangnan Water;

(r) a capital increase agreement dated 12 May 2016 entered into among our Company, Luzhou Zhongxu, Luzhou Beiyi Asset Management Center (Limited Partnership)* (瀘州北壹資產管理中心(有限合夥)), Luzhou Bei'er Asset Management Center (Limited Partnership)* (瀘州北貳資產管理中心(有限合夥)) and Beijiao Water, pursuant to which, the registered capital of Beijiao Water was increased by RMB27,460,060 and the capital reserve of Beijiao Water was increased by RMB52,917,040;

(s) the Non-competition Agreement;

(t) a cornerstone investment agreement dated 16 March 2017 entered into among our Company, BOCOM International Securities Limited and Beijing Enterprises Water Group Limited (北控水務集團有限公司), further details of which are set out in the section headed "Cornerstone Investors" in this prospectus;

(u) a cornerstone investment agreement dated 16 March 2017 entered into among our Company, BOCOM International Securities Limited and Sans Venture Capital Co., Ltd (四川三新創業投資有限責任公司), further details of which are set out in the section headed "Cornerstone Investors" in this prospectus; and

(v) the Hong Kong Underwriting Agreement.

## B. Our intellectual property rights

As of the Latest Practicable Date, our Company has registered the following intellectual property rights which, in the opinion of our Directors, are material in relation to our Company's business.

### *Trademarks*

As of the Latest Practicable Date, we have registered the following trademarks in the PRC which, in the opinion of our Directors are material to our business:

| No. | Owner | Trademark | Registration Number | Registration Date | Expiration Date |
|---|---|---|---|---|---|
| 1. | Xinglu Wastewater Treatment | | 15670209 | 14 January 2016 | 13 January 2026 |
| 2. | Xinglu Wastewater Treatment | 兴泸 XING LU | 15670208 | 14 January 2016 | 13 January 2026 |

As of the Latest Practicable Date, we have registered the following trademarks in Hong Kong which, in the opinion of our Directors, are material to our business:

| No. | Owner | Trademark | Registration Number | Registration Date | Expiration Date |
|---|---|---|---|---|---|
| 1. | our Company | | 303655512 | 12 January 2016 | 11 January 2026 |

### *Copyrights*

As of the Latest Practicable Date, we are the registered owner of the following copyrights granted in the PRC which, in the opinion of our Directors, is material to our business:

| No. | Owner | Name of Copyright | Registration Number | Registration Date |
|---|---|---|---|---|
| 1. | Xinglu Wastewater Treatment | Xinglu | Guozuodengzi-2014-F-00160336 | 29 December 2014 |

***Domain Names***

As of the Latest Practicable Date, we have registered the following domain names which, in the opinion of our Directors, are material to our business:

| No. | Domain Name | Registrant | Registration Date | Expiry Date |
|---|---|---|---|---|
| 1. | lzss.com | Our Company | 10 February 2004 | 11 February 2018 |
| 2. | lzxlwscl.com | Xinglu Wastewater Treatment | 26 August 2014 | 26 August 2017 |

## 3. FURTHER INFORMATION ABOUT OUR DIRECTORS AND SUPERVISORS

### A. Particulars of Directors' and Supervisors' Contracts

Pursuant to Rule 19A.54 of the Listing Rules, each of the Directors entered into a service contract with our Company. The principal particulars of these service agreements are (a) for a term commencing from the Listing Date and ending on the expiration of the term of the current session of the Board; (b) subject to termination in accordance with their respective terms; and (c) provision on arbitration. The service agreements may be renewed in accordance with our Articles of Association and the applicable laws and regulations.

Pursuant to Rule 19A.54 of the Listing Rules, each of the Supervisors entered into a contract in respect of, among others, compliance with relevant laws and regulations, observation of the Articles of Association and provision on arbitration with our Company.

Save as disclosed above, none of our Directors or Supervisors in their respective capacity as Director or Supervisor (as the case may be) has or is proposed to have a service contract with any member of our Group (other than contracts expiring or determinable by the relevant employer within one year without the payment of compensation (other than statutory compensation).

### B. Emolument of Directors and Supervisors

The aggregate amounts of emolument (including fees, salaries, remuneration, pension, discretionary bonus and other welfares, housing and other allowances and other benefits in kind) which were paid to the Directors and Supervisors during the years ended 31 December 2013, 2014 and 2015 and the ten months ended 31 October 2016 were approximately RMB2.5 million, RMB2.3 million, RMB2.6 million and RMB2.0 million, respectively.

Save as disclosed above, no other payments have been paid or are payable by us to the Directors and Supervisors in respect of the three years ended 31 December 2013, 2014 and 2015 and the ten months ended 31 October 2016.

There is no arrangement under which any Director has waived or agreed to waive future emoluments, nor has there been any waiver of emoluments by any Director during the current financial year.

Under the existing arrangements currently in force, the aggregate emolument payable to the Directors and the Supervisors for the year ending 31 December 2017 are estimated to be approximately RMB2.0 million and RMB1.1 million, respectively.

Each of the Directors and Supervisors is entitled to reimbursement for all reasonable expenses properly incurred in the performance of his or her duties.

## 4. DISCLOSURE OF INTERESTS

### A. Disclosure of Interests of the Directors and Supervisors in our Company and our associated corporations

Immediately following the completion of the Global Offering and assuming no exercise of the Over-allotment Option, none of our Directors, Supervisors and chief executive of our Company has any interests and/or short positions in the Shares, underlying Shares and debentures of our Company or any associated corporation (within the meaning of Part XV of the SFO) which (a) will have to be notified to our Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO or (b) will be required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or (c) will be required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies to be notified to our Company and Stock Exchange once our H Shares are listed.

### B. Disclosure of Interests of Substantial Shareholders of our Company

For information on the persons who will, immediately following the completion of the Global Offering, have interests or short positions in our Shares or underlying Shares which would be required to be disclosed to us 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 share capital carrying the rights to vote in all circumstances at general meetings of our Company, please see the section headed "Substantial Shareholders" in this prospectus.

### C. Disclosure of Interests of Substantial Shareholder in Subsidiaries of our Company

To the best knowledge of our Directors, the following person will, immediately after completion of the Global Offering, directly or indirectly, be interested in 5% or more of the nominal value of any class of share capital carrying the rights to vote in all circumstances at general meetings of the relevant subsidiary of our Company:

| Name of Shareholder | Name of Subsidiary of Our Company | Capacity/Nature of Interest | Approximate Percentage of Shareholding (%) |
|---|---|---|---|
| Luzhou Zhongxu | Nanjiao Water | Beneficial owner | 43.83 |
| Luzhou Zhongxu | Jiangnan Water | Beneficial owner | 44.19 |
| Luzhou Zhongxu | Sitong Design | Beneficial owner | 29.66 |
| Luzhou Zhongxu | Naxi Water | Beneficial owner | 21.78 |
| Luzhou Zhongxu | Sitong Engineering | Beneficial owner | 18.64 |

### D. Disclaimers

Save as disclosed in this prospectus and as at the Latest Practicable Date:

(a) none of our Directors, Supervisors or chief executive had any interest or short position in any of the Shares, underlying Shares or debentures of our Company or any shares, underlying shares or debentures of any associated corporation within the meaning of Part XV of the SFO, which (i) will have to be notified to our Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO) or (ii) will be required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or (iii) will be required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies to be notified to our Company and Stock Exchange once our H Shares are listed;

(b) our Directors are not aware of any person (not being our Director or our chief executive) who will, immediately after the completion of the Global Offering, have an interest or a short position in Shares or underlying Shares which would fall to be disclosed to us under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who will, directly or indirectly, be interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at our general meetings of any our member of our Group;

(c) none of our Directors, Supervisors or the parties listed in the paragraph headed "G. Qualification of experts" of this appendix has any direct or indirect interest in the promotion of our Company, or in any assets which, within the two years immediately preceding the date of this prospectus, have been acquired or disposed of by or leased to our Group, or are proposed to be acquired or disposed of by or leased to our Group;

(d) none of our Directors or Supervisors or the parties listed in the paragraph headed "G. Qualification of experts" in this appendix is materially interested in any contract or arrangement subsisting at the date of this prospectus which is significant in relation to our business taken as a whole;

(e) save in connection with the Underwriting Agreements, none of the parties listed in the paragraph headed "G. Qualification of experts" of this appendix:

    (i) is interested legally or beneficially in any of our Shares or any shares in any of our subsidiary; or

    (ii) has any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group;

(f) none of the Directors or Supervisors is a director or employee of a company which has an interest or short position in the Shares or underlying Shares of our Company falling to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO once the H Shares are listed on the Stock Exchange;

(g) none of the Directors, Supervisors, or their respective associates, or any Shareholders (who to the knowledge of the Directors owns more than 5.0% of our registered share capital), had any interest in our top five business customers;

(h) none of the Directors or Supervisors is interested in any business which competes or is likely to compete, either directly or indirectly, with our business; and

(i) none of the Directors or Supervisors has been paid in cash or shares or otherwise by any person in respect of the three years ended 31 December 2013, 2014 and 2015 and the ten months ended 31 October 2016, as an inducement to join or upon joining the Company, or as compensation for loss of office, or otherwise for services rendered by him in connection with the promotion or formation of our Company.

## 5. OTHER INFORMATION

### A. Estate Duty

Our Directors have been advised that no material liability for estate duty under the PRC laws is likely to fall on our Company or any of our subsidiaries.

### B. Litigation

As of the Latest Practicable Date, we are not engaged in any material litigation, arbitration or administrative proceedings which could have a material effect on our financial condition or results of operations. So far as our Directors are aware, no such litigation, arbitration or administrative proceedings of material importance is pending or threatened against our Company.

### C. Restrictions on Share Repurchase

Please see the section headed "Appendix IV — Summary of Principal Legal and Regulatory Provisions — The PRC Company Law, Special Regulations and Mandatory Provisions — Repurchase of Shares" in this prospectus for details.

### D. Sole Sponsor

The Sole Sponsor made an application on our behalf to the Listing Committee of the Stock Exchange for listing of, and permission to deal in, our H Shares. All necessary arrangements have been made to enable the H Shares to be admitted into CCASS. The Sole Sponsor confirms that it satisfies the independence criteria applicable to sponsors set out in Rule 3A.07 of the Listing Rules.

Our Company has entered into an engagement agreement with the Sole Sponsor, pursuant to which our Company agreed to pay the Sole Sponsor a fee of RMB5 million to act as sponsor to our Company in the Global Offering.

### E. Compliance adviser

We have appointed BOCOM International (Asia) Limited as our compliance adviser effective from the Listing Date in compliance with Rule 3A.19 of the Listing Rules.

### F. Preliminary expenses

The estimated preliminary expenses in relation to the conversion of our Company from a limited liability company into a joint stock limited liability company were approximately RMB0.7 million and were paid or payable by us.

## G. Qualification of experts

The qualifications of the experts, as defined under the Listing Rules, who have given opinions in this prospectus, are as follows:

| Name | Qualification |
|---|---|
| BOCOM International (Asia) Limited | Licensed corporation under the SFO to carry on type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities as defined in the SFO. |
| Deloitte Touche Tohmatsu | Certified Public Accountants |
| Jia Yuan Law Offices | PRC legal adviser |
| Frost & Sullivan (Beijing) Inc. | Independent industry consultant |
| Savills Valuation and Professional Services Limited | Independent Valuer |

## H. Taxation of holders of H Shares

The sale, purchase and transfer of H Shares are subject to Hong Kong stamp duty if such sale, purchase and transfer are affected on the H Share register of members of our Company, including in circumstances where such transactions are effected on the Stock Exchange. The current rate of Hong Kong stamp duty for such sale, purchase and transfer is HK$2.00 for every HK$1,000 (or part thereof) of the consideration or, if higher, the fair value of the H Shares being sold or transferred.

## I. No material adverse change

Save as disclosed in this prospectus, our Directors has confirmed that there has been no material adverse change in our financial or trading position since 31 October 2016.

## J. Binding effect

This document shall have the effect, if an application is made in pursuant hereto, of rendering all persons concerned bound by all the provisions (other than the penal provisions) of sections 44A and 44B of the Companies (Winding up and Miscellaneous Provisions) Ordinance so far as applicable.

## K. Consents

Each of BOCOM International (Asia) Limited, Deloitte Touche Tohmatsu, Jia Yuan Law Offices, Frost & Sullivan and Savills Valuation and Professional Services Limited, as referred to in the paragraph headed "G. Qualification of experts" in this appendix has given and has not withdrawn its or his respective written consent to the issue of this prospectus with the inclusion of any of its or his certificates, letters, opinions or reports and the references to its or his name included herein in the form and context in which it is included.

None of the experts named above has any shareholding interests in our Company or any 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 its subsidiaries.

## L. Promoters

The promoters of our Company are Luzhou Xinglu Investment Group Co., Ltd.* (瀘洲市興瀘投資集團有限公司), Luzhou Laojiao Group Co., Ltd.* (瀘州老窖集團有限公司) and Luzhou City Infrastructure Investment Co., Ltd.* (瀘洲市基礎建設投資有限公司).

Save as disclosed in this prospectus, within two years immediately preceding the date of this prospectus, no cash, security or benefit has been paid, allotted or given or is proposed to be paid, allotted or given to our promoters named above in connection with the Global Offering or the related transactions described in this prospectus.

## M. Related party transactions

Our Group entered into the related party transactions within the two years immediately preceding the date of this prospectus as mentioned in the section headed "Appendix I — Accountants' Report".

## N. Personal guarantees

The Directors and Supervisors have not provided personal guarantees in favor of lenders in connection with banking facilities granted to us.

## O. Bilingual prospectus

The English language and Chinese language versions of this prospectus are being published separately but available to the public at the same time, pursuant to Rule 11.14 of the Listing Rules and section 4 of the Companies (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice (Chapter 32L of the Laws of Hong Kong).

This prospectus is written in the English language and contains a Chinese translation for information purposes only. Should there be any discrepancy between the English language of this prospectus and the Chinese translation, the English language version of this prospectus shall prevail.

## P. Particulars of the Selling Shareholders

Certain particulars of the Selling Shareholders are set out as follows:

| No. | Name | Description | Address | Number of Sale Shares (assuming no exercise of the Over-allotment Option) | Number of Sale Shares (assuming full exercise of the Over-allotment Option) |
|---|---|---|---|---|---|
| 1. | Xinglu Investment | It is mainly engaged in investment and management of authorised state-owned assets. | No. 1, Tongjia Road, Jiangyang District, Luzhou, the PRC | 15,505,873 | 17,831,754 |
| 2. | Luzhou Laojiao | It is mainly engaged in rice production and processing and brewing. | Guojiao Square, Luzhou, the PRC | 2,133,690 | 2,453,743 |
| 3. | Luzhou Infrastructure | It is mainly engaged in investment and asset management. | No. 1, Tongjia Road, Jiangyang District, Luzhou, the PRC | 1,900,437 | 2,185,503 |

## Q. Miscellaneous

Save as disclosed in this prospectus:

(a) within the two years immediately preceding the date of this prospectus: (i) none of the member of our Group has issued or 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 commission, discount, brokerage or other special term has been granted in connection with the issue or sale of any of the shares or loan capital of any member of our Group;

(b) no share or loan capital of our Group is under option or is agreed conditionally or unconditionally to be put under option;

(c) there are no founder, management or deferred shares nor any debentures in our Company;

(d) the Company has no outstanding convertible debt securities;

(e) there are no arrangements under which future dividends are waived or agreed to be waived;

(f) there are no procedures for the exercise of any right of pre-emption or transferability of subscription rights;

(g) there have been no interruptions in our business which may have or have had a significant effect on the financial position in the last 12 months;

(h) there are no restrictions affecting the remittance of profits or repatriation of capital by us into Hong Kong from outside Hong Kong;

(i) there are no part of the equity or debt securities of our Company which 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

(j) our Company currently does 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.

## DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES IN HONG KONG

The documents attached to the copy of this prospectus 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 VI — Statutory and General Information — 5. Other Information — K. Consents" to this prospectus;

(c) a copy of each of the material contracts referred to in "Appendix VI — Statutory and General Information — 2. Further Information about our Business — A. Summary of our material contracts" to this prospectus; and

(d) the statement of particulars of the Selling Shareholders.

## DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the offices of Luk & Partners at Unit 2001, Level 20, One International Finance Centre, 1 Harbour View Street, 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 (Chinese);

(b) the Accountants' Report prepared by Deloitte Touche Tohmatsu, the text of which is set out in "Appendix I — Accountants' Report" to this prospectus;

(c) the report on the unaudited pro forma financial information of our Group prepared by Deloitte Touche Tohmatsu, the texts of which are set out in "Appendix II — Unaudited Pro Forma Financial Information" to this prospectus;

(d) the Frost & Sullivan Report;

(e) the reports prepared by Savills Valuation and Professional Services Limited, in respect of the gross profit margin of our construction service, the value in use of cash generating units within our Group and our concession arrangement;

(f) the PRC legal opinions issued by our PRC legal advisers, Jia Yuan Law Offices, in respect of our general matters and property interests of our Group;

(g) the material contracts referred to in "Appendix VI — Statutory and General Information — 2. Further Information about our Business — A. Summary of our material contracts" to this prospectus;

(h) the audited consolidated financial statements of our Group for each of the three years ended 31 December 2013, 2014 and 2015 and the ten months ended 31 October 2016;

(i) the written consents referred to in "Appendix VI — Statutory and General Information — 5. Other Information — K. Consents" to this prospectus;

(j) the service contracts referred to in "Appendix VI — Statutory and General Information — 3. Further Information about our Directors and Supervisors — A. Particulars of Directors' and Supervisors' Contracts" to this prospectus;

(k) the particulars of the Selling Shareholders; and

(l) the PRC Company Law, the Special Regulations and the Mandatory Provisions together with unofficial English translations thereof.

瀘州市興瀘水務(集團)股份有限公司
LUZHOU XINGLU WATER (GROUP) CO., LTD.*