



GREAT WATER

GREAT WATER HOLDINGS LIMITED

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 8196

Third Quarterly Report 2018



CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET (“GEM”) OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE “STOCK EXCHANGE”)

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*This report, for which the directors (the “**Directors**”) of Great Water Holdings Limited (the “**Company**” together with its subsidiaries, the “**Group**”) collectively and individually accept full responsibility, include particulars given in compliance with the Rules Governing the Listing of Securities on the GEM of the Stock Exchange (the “**GEM Listing Rules**”) for the purpose of giving information with regard to the Group. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this report is accurate and complete in all material respects and not misleading and deceptive, and there are no other matters the omission of which would make any content herein or this report misleading.*



FINANCIAL HIGHLIGHTS

For the nine months ended 30 September 2018

- Based on the unaudited condensed consolidated results of the Group for the nine months ended 30 September 2018 (the “**Period**”), the Group’s revenue for the Period was approximately RMB130,499,000, representing a decrease of approximately 25.8% as compared to approximately RMB175,816,000 for the corresponding period in 2017.
- During the Period, the Group’s gross profit was approximately RMB33,431,000, representing a decrease of approximately 29.8% as compared to approximately RMB47,641,000 for the corresponding period in 2017.
- During the Period, the Group’s profit attributable to ordinary equity holders was approximately RMB14,646,000, representing a decrease of approximately 40.0% as compared to approximately RMB24,415,000 for the corresponding period in 2017.
- The Board does not recommend the payment of any dividend for the nine months ended 30 September 2018 (nine months ended 30 September 2017: Nil).

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the three months and nine months ended 30 September 2018

UNAUDITED THIRD QUARTERLY RESULTS

The board of directors (the “**Board**”) of the Company is pleased to announce the unaudited consolidated results of the Group for the nine months ended 30 September 2018 together with the comparative unaudited figures for the corresponding period in 2017 as follows:

	Notes	For the three months ended 30 September		For the nine months ended 30 September	
		2018 RMB'000 Unaudited	2017 RMB'000 Unaudited	2018 RMB'000 Unaudited	2017 RMB'000 Unaudited
REVENUE	4	34,665	65,851	130,499	175,816
Cost of Sales		(28,157)	(49,397)	(97,068)	(128,175)
Gross profit		6,508	16,454	33,431	47,641
Other income and gains	4	403	437	6,625	4,574
Selling and distribution expenses		(1,079)	(815)	(3,180)	(2,247)
Administrative expenses		(5,074)	(5,749)	(16,880)	(19,213)
Finance costs	5	(1,182)	(677)	(2,714)	(1,639)
PROFIT BEFORE TAX		(424)	9,650	17,282	29,116
Income tax expense	6	(263)	(1,674)	(2,860)	(4,707)
PROFIT FOR THE PERIOD		(687)	7,976	14,422	24,409
Attributable to:					
Owner of parent		(610)	7,982	14,646	24,415
Non-controlling interests		(77)	(6)	(224)	(6)
		(687)	7,976	14,422	24,409
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT					
Basic and diluted	8	RMB(0.002)	RMB0.027	RMB0.049	RMB0.081

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the three months and nine months ended 30 September 2018

Notes	For the three months ended 30 September		For the nine months ended 30 September	
	2018 RMB'000 Unaudited	2017 RMB'000 Unaudited	2018 RMB'000 Unaudited	2017 RMB'000 Unaudited
OTHER COMPREHENSIVE INCOME				
Other comprehensive income to be reclassified to profit or loss in subsequent periods:				
Exchange difference on translation of foreign operations	1,531	(1,051)	1,963	(2,660)
Net other comprehensive income to be reclassified to profit or loss in subsequent periods	1,531	(1,051)	1,963	(2,660)
OTHER COMPREHENSIVE INCOME FOR THE PERIOD, NET OF TAX	1,531	(1,051)	1,963	(2,660)
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	844	6,925	16,385	21,749
Attributable to:				
Owner of parent	921	6,931	16,609	21,755
Non-controlling interests	(77)	(6)	(224)	(6)
	844	6,925	16,385	21,749

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the nine months ended 30 September 2018

	Share capital RMB'000	Share premium account RMB'000	Merger reserve RMB'000	Asset revaluation reserve RMB'000	Statutory surplus reserve RMB'000	Exchange fluctuation reserve RMB'000	Retained profits RMB'000	Total RMB'000	Non-controlling interest RMB'000	Total equity RMB'000
At 1 January 2017 (audited)	2,397	98,818	(13,830)	9,134	8,122	4,957	67,607	177,205	(2)	177,203
Profit for the period	-	-	-	-	-	-	24,415	24,415	(6)	24,409
Other comprehensive income for the period:										
Exchange differences on translation of foreign operations	-	-	-	-	-	(2,660)	-	(2,660)	-	(2,660)
Total comprehensive income for the period	-	-	-	-	-	(2,660)	24,415	21,755	(6)	21,749
At 30 September 2017 (Unaudited)	2,397	98,818	(13,830)	9,134	8,122	2,297	92,022	198,960	(8)	198,952
	Share capital RMB'000	Share premium account RMB'000	Merger reserve RMB'000	Asset revaluation reserve RMB'000	Statutory surplus reserve RMB'000	Exchange fluctuation reserve RMB'000	Retained profits RMB'000	Total RMB'000	Non-controlling interest RMB'000	Total equity RMB'000
At 1 January 2018 (audited)	2,397	98,818	(13,830)	9,134	13,192	1,388	104,349	215,488	(64)	215,384
Profit for the period	-	-	-	-	-	-	14,646	14,646	(224)	14,422
Other comprehensive income for the period:										
Exchange differences on translation of foreign operations	-	-	-	-	-	1,963	-	1,963	-	1,963
Total comprehensive income for the period	-	-	-	-	-	1,963	14,646	16,609	(224)	16,385
At 30 September 2018 (unaudited)	2,397	98,818	(13,830)	9,134	13,192	3,351	118,995	232,057	(288)	231,769

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

For the nine months ended 30 September 2018

1. GENERAL

The Company was incorporated in the Cayman Islands under the Companies Law as an exempted company with limited liability on 25 March 2015. The registered office address of the Company is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111, Cayman Islands. The principal place of business of the Company is located at Suite 2001, 20/F, Chinachem Johnston Plaza, 186 Johnston Road, Wan Chai, Hong Kong.

The Company is an investment holding company. During the Period, the Group is principally engaged in the environmental protection business, such as wastewater treatment and soil remediation, through the design, construction, operation and maintenance service of related facilities and the trading of related equipment.

2. BASIS OF PREPARATION

The unaudited condensed consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards (“**HKFRSs**”) (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (“**HKAS**”) and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants (the “**HKICPA**”), accounting principles generally accepted in Hong Kong and the disclosure requirements of Hong Kong Companies Ordinance (Cap. 622 of the laws of Hong Kong). In addition, the unaudited condensed consolidated financial statements include applicable disclosures required by the GEM Listing Rules.

The condensed consolidated financial statements are unaudited, but have been reviewed by the audit committee (the “**Audit Committee**”) of the Company.

3. OPERATING SEGMENT INFORMATION

For management purposes, the Group is organised into business units based on their products and services and has four reportable operating segments as follows:

- (a) the engineering, procurement and construction projects (“**EPC Projects**”) segment comprises projects in which an enterprise is commissioned by a customer to act as a general contractor to take care of the overall design, procurement and construction of water or wastewater treatment facilities pursuant to the contract and be responsible for the quality, safety, time control and pricing of the project;
- (b) the construction projects (“**Construction Projects**”) segment represents construction projects other than EPC Projects, including soil remediation project;
- (c) the equipment projects (“**Equipment Projects**”) segment comprises projects in which an enterprise is engaged by a customer for procurement of necessary materials, equipment and machinery, installation, testing and commissioning of the equipment and machinery for the treatment facilities as well as provision of technical consulting services to upgrade or optimise the design of the water or wastewater treatment facilities pursuant to the contract; and
- (d) the “others” segment comprises, principally, the Group’s operation and maintenance services in which an enterprise is retained to operate and maintain water or wastewater treatment facilities for a certain period for certain operation and maintenance fee on a monthly or quarterly basis.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

For the nine months ended 30 September 2018

3. OPERATING SEGMENT INFORMATION *(continued)*

Management monitors the results of the Group's operating segments separately for the purpose of making decisions about resources allocation and performance assessment. Segment performance is evaluated based on reportable segment profit/(loss), which is a measure of adjusted profit/(loss) before tax. The adjusted profit/(loss) before tax is measured consistently with the Group's profit/(loss) before tax except that interest income, finance costs, fair value gains from the Group's investment properties as well as head office and corporate expenses are excluded from such measurement.

The unaudited segment results for the nine months ended 30 September 2018 are as follows:

	EPC Project RMB'000	Construction Project RMB'000	Equipment Project RMB'000	Others RMB'000	Total RMB'000
Segment revenue:					
Sales to external customers	46,015	27,995	54,207	2,282	130,499
Segment results	4,743	9,241	18,503	944	33,431
<i>Reconciliation:</i>					
Interest income					85
Unallocated gains					6,540
Corporate and other unallocated expenses					(20,060)
Finance costs					(2,714)
Profit before tax					17,282

The unaudited segment results for the nine months ended 30 September 2017 are as follows:

	EPC Project RMB'000	Construction Project RMB'000	Equipment Project RMB'000	Others RMB'000	Total RMB'000
Segment revenue:					
Sales to external customers	73,275	25,692	70,538	6,311	175,816
Segment results	16,550	5,994	20,409	4,688	47,641
<i>Reconciliation:</i>					
Interest income					157
Unallocated gains					4,417
Corporate and other unallocated expenses					(21,460)
Finance costs					(1,639)
Profit before tax					29,116

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

For the nine months ended 30 September 2018

4. REVENUE, OTHER INCOME AND GAINS

Revenue, which is also the Group's turnover, represents the net invoiced value of goods sold, after allowances for returns and trade discounts; an appropriate proportion of contract revenue of construction contracts; the value of services rendered; and rental income received and receivable from investment properties during the relevant periods. An analysis of revenue, other income and gains is as follows:

	For the nine months ended 30 September	
	2018 RMB'000 Unaudited	2017 RMB'000 Unaudited
Revenue		
Income from construction contracting and related business	74,010	98,967
Sales of goods	54,207	70,538
Rendering of maintenance services	2,282	6,311
	130,499	175,816
Other income		
Bank interest income	85	157
Rental income	4,156	1,087
Government grants	308	3,330
	4,549	4,574
Gains		
Gain on disposal of items of property, plan and equipment	2,076	–
	6,625	4,574

5. FINANCE COSTS

An analysis of finance costs is as follows:

	For the nine months ended 30 September	
	2018 RMB'000 Unaudited	2017 RMB'000 Unaudited
Interest on bank loans	2,714	1,639

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

For the nine months ended 30 September 2018

6. INCOME TAX

The statutory rate of Hong Kong profits tax was 16.5%, (2017: 16.5%) on the estimated assessable profits arising in Hong Kong. No provision for Hong Kong profits tax was made as the Group has no assessable profits arising in Hong Kong for the nine months ended 30 September 2018 (2017: Nil).

Pursuant to the rules and regulations of the Cayman Islands, the Company is not subject to any income tax in the Cayman Islands.

Pursuant to the PRC Income Tax Law and the respective regulations, the subsidiary which operates in the People's Republic of China (the "Mainland China" or the "PRC") is subject to Corporate Income Tax at a rate of 25% on the taxable income. Preferential tax treatment is available to the Group's principal operating subsidiary, Guangzhou Great Water Environmental Protection Co., Ltd., since it was recognised as a High and New Technology Enterprise in Mainland China and a lower PRC corporate income tax rate of 15% had been applied during the nine months ended 30 September 2018 and 2017.

Pursuant to the Vietnam Income Tax Law and the respective regulations, the subsidiary which operates in Vietnam is subject to Corporate Income Tax at a rate of 22% on the taxable income.

	For the nine months ended 30 September	
	2018 <i>RMB'000</i> Unaudited	2017 <i>RMB'000</i> Unaudited
Current — Elsewhere other than Hong Kong	2,860	4,707
Deferred	—	—
Total tax charge for the period	2,860	4,707

7. DIVIDENDS

The Directors do not recommend payment of any dividend for the nine months ended 30 September 2018 (2017: Nil).

8. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

The calculation of the basic earnings per share for the nine months ended 30 September 2018 is based on the profit for the period attributable to ordinary equity holders of RMB14,646,000 (2017: RMB24,415,000), and the weighted average number of ordinary shares in issue of 300,000,000 (2017: 300,000,000).

No adjustment has been made to the basic earnings per share amounts presented for the nine months ended 30 September 2018 and 2017 in respect of a dilution as the Group had no potentially dilutive ordinary shares in issue during these periods.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

The Group is a provider of wastewater and drinking water treatment engineering services in the PRC. The main business of the Group is the provision of engineering services for wastewater and drinking water treatment facilities. The Group acts as the contractor, who is responsible for the whole project from launch to final operational management (“**EPC Projects**”), or as the equipment contractor, who is responsible for providing technical advice and equipment procurement services for the project (“**Equipment Projects**”). The Group is also engaged in other environmental protection projects (“**Other Environmental Protection Projects**”), provision of operating and maintenance services (“**O&M Projects**”) for the customers in connection with the management of wastewater and drinking water treatment facilities, as well as consultation services in relation to the improvement of wastewater and drinking water treatment facilities of various constructions.

In the nine months ended 30 September 2018, the Group continuously expanded its main business in wastewater treatment EPC Projects and Equipment Projects in the PRC, developed main businesses such as soil remediation and actively explored new businesses such as hazardous wastes and solid wastes treatment. In the third quarter of 2018, the Group has successfully entered into an operation agreement with Guangzhou Sewage for the development and construction of a sludge treatment project of the wastewater treatment plant located in Dashadi, Guangzhou, the PRC for a term of ten years, laying the solid foundation for the Group’s sludge business and operation. Regarding the details of the sludge treatment project, please refer to the announcement of the Company dated 21 September 2018.

For the nine months ended 30 September 2018, the revenue of the Group decreased by approximately RMB45,317,000, or approximately 25.8%, to approximately RMB130,499,000 as compared to the corresponding period in 2017. The decrease in revenue was primarily because the Group had recognised approximately RMB46,015,000 in revenue from EPC Projects, approximately RMB27,995,000 from construction projects (“**Construction Projects**”), and approximately RMB54,207,000 from Equipment Projects for the nine months ended 30 September 2018, compared to approximately RMB73,275,000 from EPC Projects, approximately RMB25,692,000 from Construction Projects, and approximately RMB70,538,000 from Equipment Projects for the corresponding period in 2017.

Profit attributable to ordinary equity holders for the nine months ended 30 September 2018 amounted to approximately RMB14,646,000, which represented a decrease of approximately RMB9,769,000, or approximately 40.0%, as compared to the corresponding period in 2017.

No material events affecting the Group have occurred since the end of the Period.

MANAGEMENT DISCUSSION AND ANALYSIS

OUTLOOK

Amid the global economic downturn, domestic economy in the PRC has also encountered pressure inevitably. A series of events including the sluggish economy, increasing pressure in export, on-going overproduction remedies, the “deleveraging” and “relentless monitoring” in the PRC’s financial sector as well as expected inflation have inflicted downward pressure on the PRC’s economy to a certain extent, especially in the private sectors. In terms of market response such as diminishing returns recorded in private enterprises, tightened financing conditions, reduction or delay of investment in new projects, increase in inventory and “Consumption downgrade”, all manner of economic segments have been further affected, thereby resulting in a certain degree of negative performance. On the other hand, operation of state-owned enterprises and investments in municipal projects have out-performed the private sectors under the government’s major principle of protecting the national economy.

As a considerable part of the Group’s business is related to the business of industrial environment protection, it is inevitable that the Group, together with its customers, would experience negative performance such as shrinking revenue and profit margins as well as reduction in liquidity when its customers are subject to such hard times. Therefore, the Group has also been prepared to face the operational challenges in the coming days.

Although the Group currently remains cautious in its performance expectations for this year and the following year, the Group began to seek more changes this year to actively respond to the related trend. Externally, regardless of business direction or its form of implementation, the Group has consciously extended to the industries related to our main business or in both upstream and downstream directions, and have considered to try other business expansion through investment and construction. In terms of choosing customers, the Group will also consciously raise the proportion of state-owned enterprise or state-invested enterprise customers, enhancing our development of and investment in municipal business. Internally, the Group will further strengthen the management of human resources and capital flow to further control our costs and protect our cash flow.

Under the premise of swerving operational concept, the Group has obtained achievement in business development to some extent after successfully entering into the operation agreement with Guangzhou Sewage for the development and construction of a sludge treatment project of the wastewater treatment plant located in Dashadi, Guangzhou, the PRC for a term of ten years in the third quarter of 2018. The project is expected to commence in the first quarter of 2019, which the Group estimates will lay the solid foundation for the Group’s revenue for the next few years.

Meanwhile the Group is also deploying more resources to the research and development (“R&D”) for the continuous enhancement of its existing environment protection technologies when conducting research and development on more advanced technologies with respect to environment protection so as to meet the expected market demand in the future. In the third quarter, the Group obtained one new utility model patent and plans to apply for five patents in the fourth quarter. The Group believes that its continued R&D investment and its achievements on innovation will enable the Group to maintain sustainable competitiveness in the environment protection industry.

In conclusion, the Group believes that the environment protection market in the PRC has entered a new era of doom and gloom compared with the last few years. In the current situation, diversifying business implementation methods, continuously exploring relevant markets, providing more comprehensive and efficient services and strengthening our connection with quality customers as well as improving risk control and adopting more protective measures for cash flow control will become the main business strategies of the Company in the future.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

Operating revenue

For the Period, the Group's operating revenue amounted to approximately RMB130,499,000, representing a decrease of approximately 25.8% or RMB45,317,000 as compared to the corresponding period in 2017.

EPC Projects and Construction Projects

For the EPC Projects, the Group assumes the role of main contractor in charge of overall project management of building a treatment plant from initiation to commissioning for a predetermined contract amount. As an EPC contractor, the Group provides engineering design of the treatment facilities, procures necessary materials and appoints sub-contractors to build the facilities. The Group also engages in construction projects related to other environmental protection areas (such as soil remediation project and flue gas treatment project, involving the provision of engineering and procurement services for the project owner).

— *Revenue relating to EPC Projects*

For the Period, the revenue generated from EPC Projects relating to wastewater and drinking water treatment projects under construction and related business was approximately RMB46,015,000 (2017: approximately RMB73,275,000), representing a decrease of approximately 37.2% or RMB27,260,000 over the corresponding period in 2017. The decrease in revenue from EPC Projects in the Period was primarily attributable to the recognition of revenue of approximately RMB44,530,000 in revenue from a large-size EPC Project. The rest of the revenue, in the amount of approximately RMB1,485,000, was derived from another two small-size EPC Projects. In contrast, the revenue from EPC Projects for the corresponding period last year was derived from three large-size EPC Project in the amount of approximately RMB58,132,000 and eleven other EPC Projects in the amount of approximately RMB15,143,000.

— *Revenue relating to Construction Projects*

For the Period, the revenue generated from Construction Projects was approximately RMB27,995,000 (2017: approximately RMB25,692,000), representing an increase of approximately 9.0% or RMB2,303,000 over the corresponding period in 2017. The increase in revenue from Construction Projects in the Period was primarily attributable to the recognition of revenue of approximately RMB27,995,000 in revenue from four Construction Projects. In contrast, the revenue from Construction Projects for the corresponding period last year was derived from one large-size Construction Project in the amount of approximately RMB21,405,000 and another three Construction Projects in the amount of approximately RMB4,287,000.

MANAGEMENT DISCUSSION AND ANALYSIS

Equipment Projects

For the Equipment Projects, the Group mainly provides procurement services to a pre-defined section of a project. In determining the equipment and machinery best suited for the project operator's requirements, the Group's technical team often needs to work closely with the customer in identifying, evaluating and selecting different equipment options before the procurement team comes into play.

For the Period, the revenue generated from Equipment Projects amounted to approximately RMB54,207,000 (2017: approximately RMB70,538,000), representing a decrease of approximately 23.2% or RMB16,331,000 compared to the corresponding period in 2017. The decrease in revenue from EPC Projects in the Period was primarily attributable to the recognition of revenue of approximately RMB34,410,000 in revenue from two large-size Equipment Projects. The rest of the revenue, in the amount of approximately RMB19,797,000, was from another eight Equipment Projects. In contrast, the revenue from Equipment Projects for the corresponding period last year was derived from two large-size waste water facility projects in the amount of approximately RMB57,998,000 and another nine Equipment Projects in the amount of approximately RMB12,540,000.

Others

The revenue under the other segment included revenue attributable to O&M Projects and technical advisory services. As at 30 September 2018, the Group had one wastewater treatment O&M Project and four drinking water treatment O&M Projects on hand.

For the Period, the revenue generated from rendering of maintenance services amounted to approximately RMB2,282,000 (2017: approximately RMB6,311,000), representing a decrease of approximately 63.8% or RMB4,029,000 as compared to the corresponding period in 2017. The decrease was primarily attributable to (i) one technical advisory projects in the Period with revenue contribution of approximately RMB94,000 as compared to four technical advisory projects approximately RMB3,906,000 in the corresponding period in 2017; and (ii) O&M projects which contributed approximately RMB2,188,000 in revenue in the Period as compared to approximately RMB2,405,000 in the corresponding period in 2017.

Other income and gains

For the Period, other income and gains amounted to approximately RMB6,625,000 (2017: approximately RMB4,574,000), representing an increase of approximately 44.8% or approximately RMB2,051,000 as compared to the corresponding period in 2017. The increase was attributable to (i) a rental income (net of cost) from construction equipment of approximately RMB3,023,000 (2017: nil); and (ii) gain on disposal of items of property, plant and equipment of approximately RMB2,076,000 (2017: nil). The above increase which was partly being set off by the decrease in government grants for approximately RMB3,022,000 in the Period.

MANAGEMENT DISCUSSION AND ANALYSIS

Cost of sales

For the Period, the cost of sales of the Group amounted to approximately RMB97,068,000 (2017: approximately RMB128,175,000), representing a decrease of approximately 24.3% or approximately RMB31,107,000 compared to the corresponding period in 2017.

The decrease in cost of sales was mainly due to the decreased operating revenue. The subcontracting costs decreased to approximately RMB23,277,000 for the Period from approximately RMB50,000,000 for the corresponding period in 2017. The material costs decreased to approximately RMB67,345,000 for the Period from approximately RMB75,224,000 for the corresponding period in 2017, representing a decrease of approximately 10.5% or approximately RMB7,879,000 over the corresponding period in 2017.

Gross profit

For the Period, the Group achieved gross profit of approximately RMB33,431,000 (2017: approximately RMB47,641,000), representing a decrease of approximately 29.8% or approximately RMB14,210,000 as compared to the corresponding period in 2017. The decrease in gross profit of the Group was mainly due to the fact that the revenue in the Period decreased by approximately 25.8% as compared to the corresponding period of last year.

Selling and distribution expenses

For the Period, the selling and distribution expenses of the Group amounted to approximately RMB3,180,000 (2017: approximately RMB2,247,000), representing an increase of approximately 41.5% or approximately RMB933,000 compared to the corresponding period in 2017. The increase in the selling and distribution expenses was mainly attributed to the reclassification of salaries and employee benefit of approximately RMB970,000 due to some staff reallocation from various departments to the sales department in 2018 and those costs used to be recorded in administrative expenses.

Administrative expenses

For the Period, the administrative expenses of the Group amounted to approximately RMB16,880,000 (2017: approximately RMB19,213,000), representing a decrease of approximately 12.1% or approximately RMB2,333,000 compared to the corresponding period in 2017. The decrease in the administrative expenses was mainly attributed to the decrease of staff bonus being paid of approximately RMB1,249,000 and some staff reallocation from various departments to the sales department for approximately RMB970,000 as mentioned in the paragraph headed "Selling and distribution expenses" above.

Profit for the Period

The profit for the Period amounted to approximately RMB14,422,000 (2017: RMB24,409,000), representing a decrease of approximately RMB9,987,000 or 40.9% as compared to the corresponding period in 2017.

MANAGEMENT DISCUSSION AND ANALYSIS

DIVIDEND

The Directors do not recommend the payment of any dividend for the nine months ended 30 September 2018 (2017: nil).

CORPORATE GOVERNANCE PRACTICES

The Board is committed to maintaining a good corporate governance standard, with the chairman being primarily responsible for establishing relevant practices and procedures. The Board believes that a good corporate governance standard will provide a framework for the Group to formulate its business strategies and policies, and manage the associated risks through effective internal control procedures. It will also enhance the transparency of the Group and strengthen accountability to shareholders and creditors of the Group. Therefore the Board has reviewed and will continue to review and improve the Company's corporate governance practices from time to time.

The Company adopted the Corporate Governance Code (the "CG Code") contained in Appendix 15 to the GEM Listing Rules as its own code of corporate governance. According to code provision A.2.1 of the CG Code, the roles of chairman and chief executive should be separate and should not be performed by the same individual and their respective responsibilities should be clearly defined in writing. With extensive experience in the wastewater and water treatment engineering services industry, Mr. Xie Yang, the chairman of the Board, an executive Director and the chief executive officer of the Company, is responsible for the Group's overall strategic planning and management of its business. The Board considers that vesting the roles of chairman and chief executive officer in the same person is beneficial to the business prospects and management of the Group and the balance of power and authority is ensured by the operation of the senior management and the Board, which comprises experienced individuals. The Board comprised of two executive Directors (including Mr. Xie Yang), two non-executive Directors and three independent non-executive Directors during the Period and therefore has sufficient independent elements in its composition. The Board is in the process of looking for a potential candidate from the market to take up the role of chief executive officer of the Company in order to comply with the CG Code. Save for code provision A.2.1 of the CG Code, that the roles of the chairman and chief executive of the Company should be separate and should not be performed by the same individual, the Board is satisfied that the Company had complied with the CG Code for the Period.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the Period, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities.

MANAGEMENT DISCUSSION AND ANALYSIS

INTERESTS AND SHORT POSITIONS OF DIRECTORS AND CHIEF EXECUTIVE IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE GROUP AND ITS ASSOCIATED CORPORATIONS

As at 30 September 2018, the interests and short positions of the Directors and chief executive of the Company in the ordinary shares (the “Shares”), underlying Shares and debentures of the Company or any of its associated corporations (as defined in Part XV of the Securities and Future Ordinance (Chapter 571 of the laws of Hong Kong) (the “SFO”) which were required to be notified to the Company and the Stock Exchange under Divisions 7 and 8 of Part XV of the SFO (including any interests or short positions which they are taken or deemed to have under such provisions of the SFO) or required to be entered in the register of the Company pursuant to section 352 of the SFO, or required to be notified to the Company and the Stock Exchange pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules were as follows:

Long positions in Shares

Name of director	Capacity	Number of Shares (Note 1)	Approximate percentage of the total number of Shares in issue
Mr. Xie Yang ^(Note 2)	Interest in controlled corporation	91,350,000 (L)	30.45%
Ms. Gong Lan Lan ^(Note 3)	Interest in controlled corporation	67,117,500 (L)	22.37%
Mr. Song Xiao Xing ^(Note 4)	Interest in controlled corporation	44,032,500 (L)	14.68%

Notes:

- The letter “L” denotes a long position.
- These Shares are owned by Oceanic Expert Investments Limited which is wholly owned by Perfect Wave Holdings Limited, the 100% interests of which is in turn beneficially owned by Mr. Xie Yang. Accordingly, Mr. Xie Yang is taken or deemed to be interested in the 91,350,000 Shares held by Oceanic Expert Investments Limited by virtue of the SFO.
- These Shares are owned by Waterman Global Limited which is wholly owned by The Thinker Global Limited, the 100% interests of which is in turn beneficially owned by Ms. Gong Lan Lan. Accordingly, Ms. Gong Lan Lan is taken or deemed to be interested in the 67,117,500 Shares held by Waterman Global Limited by virtue of the SFO.
- These Shares are owned by Great Time Ventures Limited which is wholly owned by Topman Ventures Limited, the 100% interests of which is in turn beneficially owned by Mr. Song Xiao Xing. Accordingly, Mr. Song Xiao Xing is taken or deemed to be interested in the 44,032,500 Shares held by Great Time Ventures Limited by virtue of the SFO.

Save as disclosed above, as at 30 September 2018, none of the Directors and chief executive of the Company had any interest or short position in the Shares, underlying shares and debentures of the Company or any of its associated corporations (as defined in Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange under Divisions 7 and 8 of Part XV of the SFO (including any interests or short positions which they are taken or deemed to have under such provisions of the SFO) or required to be entered in the register of the Company pursuant to section 352 of the SFO, or required to be notified to the Company and the Stock Exchange pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules.

MANAGEMENT DISCUSSION AND ANALYSIS

THE INTERESTS OF SUBSTANTIAL SHAREHOLDERS AND THE INTERESTS AND SHORT POSITION OF OTHER PERSONS IN THE SHARES AND UNDERLYING SHARES

As at 30 September 2018, so far as the Directors are aware, the interests or short positions owned by the following persons (other than the Directors or chief executive of the Company) in the Shares or underlying Shares of the Company which are required to be notified to the Company and the Stock Exchange under Divisions 2 and 3 of Part XV of the SFO or which are required to be recorded in the register of the Company required to be kept under section 336 of the SFO are as follows:

Long positions in the Shares

Name	Capacity	Number of ordinary Shares held (Note 1)	Approximate percentage of interest
Oceanic Expert Investments Limited ^(Note 2)	Beneficial owner	91,350,000 (L)	30.45%
Perfect Wave Holdings Limited ^(Note 2)	Interest in controlled corporation	91,350,000 (L)	30.45%
Waterman Global Limited ^(Note 3)	Beneficial owner	67,117,500 (L)	22.37%
The Thinker Global Limited ^(Note 3)	Interest in controlled corporation	67,117,500 (L)	22.37%
Great Time Ventures Limited ^(Note 4)	Beneficial owner	44,032,500 (L)	14.68%
Topman Ventures Limited ^(Note 4)	Interest in controlled corporation	44,032,500 (L)	14.68%
Woody Industrial Limited ^(Note 5)	Beneficial owner	17,724,000 (L)	5.91%
Acute Capital Investments Limited ^(Note 5)	Interest in controlled corporation	17,724,000 (L)	5.91%
Mr. Yang Chen Kuo ^(Note 5)	Interest in controlled corporation	17,724,000 (L)	5.91%

Notes:

- The letter "L" denotes a long position.
- Mr. Xie Yang beneficially owns the entire issued share capital of Perfect Wave Holdings Limited which in turn wholly owns Oceanic Expert Investments Limited which held 91,350,000 Shares.
- Ms. Gong Lan Lan beneficially owns the entire issued share capital of The Thinker Global Limited which in turn wholly owns Waterman Global Limited which held 67,117,500 Shares.
- Mr. Song Xiao Xing beneficially owns the entire issued share capital of Topman Ventures Limited which in turn wholly owns Great Time Ventures Limited which held 44,032,500 Shares.
- Mr. Yang Chen Kuo beneficially owns the entire issued share capital of Acute Capital Investments Limited which in turn wholly owns Woody Industrial Limited which held 17,724,000 Shares.

MANAGEMENT DISCUSSION AND ANALYSIS

Save as disclosed above, as at 30 September 2018, the Directors are not aware of any interests or short positions owned by any persons (other than the Directors or Chief Executive of the Company) in the Shares or underlying Shares of the Company which were required to be disclosed under Divisions 2 and 3 of Part XV of the SFO or which were required to be recorded in the register of the Company required to be kept under section 336 of the SFO.

SHARE OPTION SCHEME

As at 30 September 2018, the Group did not adopt any share option scheme.

COMPLIANCE WITH THE CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS

The Company has adopted a code of conduct regarding securities transactions by the Directors on terms no less exacting than the required standard of dealings set out in Rules 5.48 to 5.67 of the GEM Listing Rules (the “**Required Standard of Dealings**”). The Company had also made specific enquiry to all the Directors, and each of them has confirmed that he/she was in compliance with the Required Standard of Dealings during the Period.

REVIEW OF FINANCIAL STATEMENT

During the Period, the Audit Committee of the Company (“**Audit Committee**”) comprised three independent non-executive Directors, namely, Mr. Tse Chi Wai, Ms. Bai Shuang and Mr. Ha Cheng Yong. Mr. Tse Chi Wai is the chairman of the Audit Committee.

The Audit Committee has reviewed the accounting policies and practices adopted by the Group and has discussed with the management of the Company on the financial reporting matters including review of the unaudited condensed consolidated financial statements of the Group for the Period.

By order of the Board
Great Water Holdings Limited
XIE YANG
Chairman

Guangzhou, the PRC, 9 November 2018

As at the date of this report, the executive Directors are Mr. XIE Yang and Mr. HE Yuan Xi; the non-executive Director is Ms. GONG Lan Lan and the independent non-executive Directors are Ms. BAI Shuang, Mr. HA Cheng Yong and Mr. TSE Chi Wai.