



GREAT WATER

GREAT WATER HOLDINGS LIMITED

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 8196

2019

Third Quarterly Report

CHARACTERISTICS OF GEM OF THE 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 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 or deceptive, and there are no other matters the omission of which would make any statement herein or this report misleading.*



FINANCIAL HIGHLIGHTS

For the nine months ended 30 September 2019

- Based on the unaudited condensed consolidated results of the Group for the nine months ended 30 September 2019 (the “**Period**”), the Group’s revenue for the Period was approximately RMB24,141,000, representing a decrease of approximately 81.5% as compared to approximately RMB130,499,000 for the corresponding period in 2018.
- During the Period, the Group’s gross profit was approximately RMB7,026,000, representing a decrease of approximately 79.0% as compared to approximately RMB33,431,000 for the corresponding period in 2018.
- During the Period, the Group’s loss attributable to ordinary equity holders was approximately RMB8,748,000 as compared to profit attributable to ordinary equity holders of approximately RMB14,646,000 for the corresponding period in 2018.
- The Board did not recommend the payment of any dividend for the nine months ended 30 September 2019.

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the three months and nine months ended 30 September 2019

UNAUDITED THIRD QUARTERLY RESULTS

The board of Directors (the “**Board**”) of the Company announce the unaudited consolidated results of the Group for the nine months ended 30 September 2019 together with the comparative unaudited figures for the corresponding period in 2018 as follows:

	Notes	For the three months ended 30 September		For the nine months ended 30 September	
		2019 RMB'000 Unaudited	2018 RMB'000 Unaudited	2019 RMB'000 Unaudited	2018 RMB'000 Unaudited
REVENUE	4	8,029	34,665	24,141	130,499
Cost of Sales		(5,400)	(28,157)	(17,115)	(97,068)
Gross profit		2,629	6,508	7,026	33,431
Other income and gains	4	885	403	6,983	6,625
Selling and distribution expenses		(656)	(1,079)	(2,261)	(3,180)
Administrative expenses		(6,011)	(5,074)	(18,989)	(16,880)
Finance costs	5	(822)	(1,182)	(2,656)	(2,714)
(LOSS)/PROFIT BEFORE TAX		(3,975)	(424)	(9,897)	17,282
Income tax expense	6	431	(263)	1,515	(2,860)
(LOSS)/PROFIT FOR THE PERIOD		(3,544)	(687)	(8,382)	14,422
Attributable to:					
Owner of parent		(3,544)	(610)	(8,748)	14,646
Non-controlling interests		–	(77)	366	(224)
		(3,544)	(687)	(8,382)	14,422
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT					
Basic and diluted	8	RMB(0.012)	RMB(0.002)	RMB(0.029)	RMB0.049

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the three months and nine months ended 30 September 2019

Notes	For the three months ended 30 September		For the nine months ended 30 September	
	2019 RMB'000 Unaudited	2018 RMB'000 Unaudited	2019 RMB'000 Unaudited	2018 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	1,441	1,531	1,458	1,963
Net other comprehensive income to be reclassified to profit or loss in subsequent periods	1,441	1,531	1,458	1,963
OTHER COMPREHENSIVE INCOME FOR THE PERIOD, NET OF TAX	1,441	1,531	1,458	1,963
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	(2,103)	844	(6,924)	16,385
Attributable to:				
Owner of parent	(2,103)	921	(7,290)	16,609
Non-controlling interests	–	(77)	366	(224)
	(2,103)	844	(6,924)	16,385

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the nine months ended 30 September 2019

	Share capital RMB'000	Share premium account RMB'000	Merge 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
	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 2019 (audited)	2,397	98,818	(13,830)	9,134	15,029	3,422	107,229	222,199	(371)	221,828
Profit for the period	-	-	-	-	-	-	(8,748)	(8,748)	366	(8,382)
Other comprehensive income for the period:										
Exchange differences on translation of foreign operations	-	-	-	-	-	1,458	-	1,458	-	(1,458)
Total comprehensive income for the period	-	-	-	-	-	1,458	(8,748)	(7,290)	366	(6,924)
At 30 September 2019 (Unaudited)	2,397	98,818	(13,830)	9,134	15,029	4,880	98,481	214,909	5	214,904

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

For the nine months ended 30 September 2019

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;
- (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;
- (d) the service concession arrangement (“**Service Concession Arrangement**”) segment comprises projects in which provides the construction of sludge treatment and operation of the sludge station upon the completion of construction for a long period, i.e. 10 years. The fee received under this arrangement for the provision of operation services includes a guaranteed tariff based on a guaranteed minimum treatment volume together with an additional tariff in excess of the minimum volume. Restoration of the infrastructure to a specified condition before it is handed over to the grantor at the end of the service arrangement is necessary. According to the term of such arrangement, the Group is responsible for all of the costs in construction, operation and maintenance as well as restoration of the infrastructure; and
- (e) the other projects (“**Others**”) segment comprises, principally, the Group’s operation and maintenance services in which an enterprise of the Group is retained to operate and maintain water or wastewater treatment facilities for a certain period for certain operation and maintenance fees on a monthly or quarterly basis.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

For the nine months ended 30 September 2019

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 2019 are as follows:

	EPC Project RMB'000	Construction Project RMB'000	Equipment Project RMB'000	Services Concession Arrangement RMB'000	Others RMB'000	Total RMB'000
Segment revenue:						
Sales to external customers	3,206	2,692	6,132	8,254	3,857	24,141
Segment results	365	504	3,376	341	2,440	7,026
<i>Reconciliation:</i>						
Interest income						78
Unallocated gains						6,905
Corporate and other unallocated expenses						(21,250)
Finance costs						(2,656)
Loss before tax						(9,897)

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	Services Concession Arrangement 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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

For the nine months ended 30 September 2019

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	
	2019 <i>RMB'000</i> Unaudited	2018 <i>RMB'000</i> Unaudited
Revenue		
Income from construction contracting and related business	14,152	74,010
Sales of goods	6,132	54,207
Rendering of maintenance services	3,857	2,282
	24,141	130,499
Other income		
Bank interest income	78	85
Rental income	1,138	4,156
Government grants	1,189	308
	2,405	4,549
Gains		
Gain on disposal of items of property, plant and equipment	–	2,076
Gain on disposal of a subsidiary	4,578	–
	6,983	6,625

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

For the nine months ended 30 September 2019

5. FINANCE COSTS

An analysis of finance costs is as follows:

	For the nine months ended 30 September	
	2019 RMB'000 Unaudited	2018 RMB'000 Unaudited
Interest on bank loans	2,656	2,714

6. INCOME TAX

The statutory rate of Hong Kong profits tax was 16.5%, (2018: 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 2019 (2018: 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 2019 and 2018.

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	
	2019 RMB'000 Unaudited	2018 RMB'000 Unaudited
Current — Elsewhere other than Hong Kong	(1,515)	2,860
Deferred	—	—
Total tax (recover)/charge for the period	(1,515)	2,860

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

For the nine months ended 30 September 2019

7. DIVIDENDS

The Directors do not recommend payment of any dividend for the nine months ended 30 September 2019 (2018: 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 2019 is based on the loss for the period attributable to ordinary equity holders of RMB8,748,000 (2018: profit attributable to ordinary equity holders of RMB14,646,000), and the weighted average number of ordinary shares in issue of 300,000,000 (2018: 300,000,000).

No adjustment has been made to the basic earnings per share amounts presented for the nine months ended 30 September 2019 and 2018 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 either 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 waste water treatment 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.

During the Period, the Group recorded a significant decrease in its revenue and loss for the period as compared to the corresponding period in 2018. Such undesirable performance in revenue was mainly attributable to (1) a slowdown in additional demands for water or water treatment facilities due to the sluggish economy in the PRC in 2019; and (2) the delayed construction progress for certain large scale projects of the Group. The significant decrease in the Group’s revenue led to a corresponding overall net loss after tax for the Period as compared to a net profit after tax for the corresponding period in 2018.

During the Period, the revenue of the Group decreased by approximately RMB106,358,000, or 81.5% to approximately RMB24,141,000 as compared to the corresponding period in 2018. The decrease in revenue was primarily attributable to the factors set out in the above paragraph. During the Period, the Group recognised approximately RMB3,206,000 in revenue from EPC Projects, approximately RMB2,692,000 in revenue from projects other than EPC Projects (“**Construction Projects**”), approximately RMB6,132,000 in revenue from Equipment Projects, approximately RMB8,254,000 in revenue from the development, construction and operating agreement of a sewage treatment project (“**Service Concession Arrangement**”) and approximately RMB3,857,000 in revenue from Other Environmental Protection Projects for the nine months ended 30 September 2019. In comparison, approximately RMB46,015,000 in revenue from EPC Projects, approximately RMB27,995,000 in revenue from Construction Projects, approximately RMB54,207,000 in revenue from Equipment Projects and approximately RMB2,282,000 in revenue from Other Environmental Protection Projects was recognized in the corresponding period in 2018.

Loss attributable to ordinary equity holders for the Period amounted to approximately RMB8,748,000 as compared to profit attributable to ordinary equity holders approximately RMB14,646,000 for the corresponding period last year.

Outlook

Amid the global economic downturn, domestic economy in the PRC has also inevitably encountered pressure. 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.

According to the information from the China National Bureau of Statistics (中國國家統計局), the economic growth further slowed down in the third quarter of 2019, reaching 6%. The growth in the secondary industries (i.e. the manufacturing industry, the construction industry and public works, etc.), which are closely related to the business of the Group, was still not desirable compared with that in the past. As such trend is expected to continue in the second half of 2019, a consequential slowdown in additional demands for water supply or water treatment facilities are resulted. In the meantime, the timelines for new projects have been extended considerably. Under such circumstances, there was a significant drop in indicators such as total income and profitability, which has unavoidably resulted in poor performance including shrinking of income and profit margin, as well as a reduction in liquidity. In addition, as the progress of the new projects has been delayed, the construction progress of the projects of the Group in the first three quarters of 2019 has experienced a drastic decline when compared with the corresponding period in 2018, and this trend is expected to sustain in the fourth quarter of 2019 and the beginning of 2020.

MANAGEMENT DISCUSSION AND ANALYSIS

Although the Group currently remains cautious in its performance expectations for 2019, the Group began to seek for more changes in the second half of 2018 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 its main business in both upstream and downstream directions. The Group will consider additional business expansion by means of, inter alia, investment with construction or construction with operation, so as to offer more choices to its customers, while expanding the spectrum of services for the customers. In respect of customer selection, the Group will also consciously increase the proportion of state-owned enterprises or state-invested enterprise customers, enhancing its effort in developing and investing in municipal business. Internally, the Group will further strengthen the management of human resources and capital flow to further control its costs and ensure its cash flow.

With a change in its operation approach, moderate success was achieved by the Group in the business development, including the operation agreement entered with Guangzhou Sewage for the development and construction of a sludge treatment project for the wastewater treatment plant located in Dashadi, Guangzhou, the PRC for a term of ten years in the third quarter of 2018. The project that started its trial operation in June 2019 will reach the stages of completion and acceptance with the owner in late October 2019, and its operation is expected to officially commence in November 2019. On the other hand, the Group has also contracted for two large projects in the second quarter of 2019. The first one is the EPC Project of sewage treatment in Guangzhou Huashan with a contract amount of approximately RMB130,000,000, which is the largest project for the Group in terms of contract sum. The other is the sludge treatment project in Guangzhou Baiyun Airport for an operation of 3.5 years, with a construction contract amount of approximately RMB32,000,000 and the estimated annual service fee of approximately RMB15,000,000. These projects will lay a solid foundation for the Group's revenue in the next few years.

FINANCIAL REVIEW

Revenue

For the nine months ended 30 September 2019, the Group's revenue amounted to approximately RMB24,141,000, representing a decrease of approximately 81.5% or RMB106,358,000 as compared to the corresponding period in 2018.

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 Projects 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 was approximately RMB3,206,000 (2018: approximately RMB46,015,000), representing a decrease of approximately 93.0% or RMB42,809,000 over the corresponding period in 2018. The decrease in revenue from EPC Projects for the Period was primarily attributable to the recognition of revenue of approximately 3,206,000 from one EPC Project. In contrast, the revenue from EPC Projects for the corresponding period last year was derived from the recognition of revenue of approximately RMB44,530,000 from a large-size EPC Project and approximately RMB1,485,000 from two other small-size EPC Projects.

— Revenue relating to Construction Projects

For the Period, the revenue generated from Construction Projects was approximately RMB2,692,000 (2018: approximately RMB27,995,000), representing a decrease of approximately 90.4% or RMB25,303,000 over the corresponding period in 2018. The decrease in revenue from Construction Projects for the Period was primarily attributable to the recognition of revenue of approximately RMB2,692,000 from four Construction Projects. In contrast, the revenue from Construction Projects for the corresponding period last year was derived from the recognition of revenue of approximately RMB27,995,000 from four large-size Construction Projects.

MANAGEMENT DISCUSSION AND ANALYSIS

Equipment Projects

For 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 customers in identifying, evaluating and selecting different equipment options before the procurement team comes into play.

For the Period, the revenue generated from Equipment Projects was approximately RMB6,132,000 (2018: approximately RMB54,207,000), representing a decrease of approximately 88.7% or RMB48,075,000 over the corresponding period in 2018. The decrease in revenue from Equipment Projects for the Period was primarily attributable to the recognition of revenue of approximately RMB6,132,000 from one Equipment Project. In contrast, the revenue from Equipment Projects for the corresponding period last year was derived from the recognition of revenue of approximately RMB54,207,000 from ten Equipment Projects.

Service Concession Arrangement

For Service Concession Arrangement, the Group has acquired a sludge treatment project in a wastewater treatment plant located in Dashadi from Guangzhou Sewage in the third quarter of 2018. The Group, as a contractor, is responsible for the development, construction and the operation agreement for a term of 10 years of the project. The project has started its trial operation in June 2019.

For the Period, the revenue generated from the Service Concession Arrangement segment was approximately RMB8,254,000 (2018: Nil). The revenue for the Period was attributable to the relative revenue of work recognized based on the actual costs incurred according to the progress of development and construction work of the Service Concession Arrangement. There was no such gain for the corresponding period last year.

Others

The revenue under the Others segment included revenue attributable to O&M Projects and technical advisory services. As at 30 September 2019, 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 RMB3,857,000 (2018: approximately RMB2,282,000), representing an increase of approximately 69.0% or RMB1,575,000 as compared to the corresponding period in 2018. The increase was primarily attributable to (i) the revenue of approximately RMB1,622,000 from three technical advisory projects being recognised for the Period as compared to the revenue of approximately RMB94,000 from one technical advisory project in the corresponding period in 2018; and (ii) O&M Projects which contributed approximately RMB2,235,000 in revenue in the for the Period, representing an increase of approximately RMB48,000 as compared to the corresponding period of last year.

Other income and gains

For the Period, other income and gains amounted to approximately RMB6,983,000 (2018: approximately RMB6,625,000), representing an increase of approximately 5.4% or approximately RMB358,000 as compared to the corresponding period in 2018.

MANAGEMENT DISCUSSION AND ANALYSIS

Cost of sales

For the Period, the cost of sales of the Group amounted to approximately RMB17,115,000 (2018: approximately RMB97,068,000), representing a decrease of approximately 82.4% or approximately RMB79,953,000 compared to the corresponding period in 2018.

The decrease in cost of sales was mainly due to the decreased operating revenue. The subcontracting costs decreased to approximately RMB8,839,000 for the Period from approximately RMB23,277,000 for the corresponding period in 2018. The material costs decreased to approximately RMB6,345,000 for the Period from approximately RMB67,345,000 for the corresponding period in 2018, representing a decrease of approximately 90.6% or approximately RMB61,000,000 over the corresponding period in 2018.

Gross profit

For the Period, the Group achieved gross profit of approximately RMB7,026,000 (2018: approximately RMB33,431,000), representing a decrease of approximately 79.0% or approximately RMB26,405,000 as compared to the corresponding period in 2018. The decrease in gross profit of the Group was mainly due to the fact that the revenue for the Period decreased by approximately 81.5% 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 RMB2,261,000 (2018: approximately RMB3,180,000), representing a decrease of approximately 28.9% or approximately RMB919,000 as compared to the corresponding period in 2018. The decrease in the selling and distribution expenses was mainly due to (i) the decrease in salaries and employee benefit of approximately RMB549,000; (ii) the decrease in transportation cost of approximately RMB118,000; and (iii) the decrease in maintenance service cost of approximately RMB198,000.

Administrative expenses

For the Period, the administrative expenses of the Group amounted to approximately RMB18,989,000 (2018: approximately RMB16,880,000), representing an increase of approximately 12.5% or approximately RMB2,109,000 as compared to the corresponding period in 2018. The increase in the administrative expenses was mainly due to (i) the increase in salaries and employee benefit of approximately RMB1,026,000; and (ii) the increase in research and development cost of approximately RMB1,036,000.

Profit for the Period

Loss for the Period amounted to approximately RMB8,382,000 as compared to a profit for the period of approximately RMB14,422,000 for the corresponding period last year. The decrease was a consequence of the decrease in revenue of the Group for the Period.

Dividend

The Board did not recommend the payment of any dividend for the nine months ended 30 September 2019 (2018: nil).

MANAGEMENT DISCUSSION AND ANALYSIS

CORPORATE GOVERNANCE PRACTICES

The Board is committed to maintaining a good corporate governance standard, with the chairman of the Board 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 the 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 has adopted the Corporate Governance Code (the “**CG Code**”) contained in Appendix 15 to the GEM Listing Rules as its own code of corporate governance. Save for code provision A.2.1 of the CG Code, that the roles of the chairman and chief executive officer 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 code provisions set out in the CG Code for the Period. Mr. Xie Yang (“**Mr. Xie**”) is chairman of the Board and the chief executive officer of the Company. With extensive experience in the wastewater and water treatment engineering services industry, Mr. Xie is responsible for the Group's overall strategic planning and management of its business. The Board considers that vesting both the roles of chairman of the Board and chief executive officer of the Company in Mr. Xie 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 two executive Directors (including Mr. Xie), a non-executive Director and three independent non-executive Directors during the nine month ended 30 September 2019 and therefore had sufficient independent elements in its composition.

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 COMPANY AND ITS ASSOCIATED CORPORATIONS

As at 30 September 2019, the interests and short positions of the Directors and chief executive of the Company in the ordinary 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”)) as recorded in the register required to be kept by the Company pursuant to section 352 of the SFO, or as otherwise required to be notified to the Company and the Stock Exchange pursuant to the required standard of dealings by directors of issuer as referred to in rules 5.46 to 5.67 of the GEM Listing Rules (the “Required Standard of Dealings”) were as follows:

Long positions in the ordinary shares of the Company (the “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%

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.

Save as disclosed above, as at 30 September 2019, 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 recorded in the register required to be kept by the Company pursuant to section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Required Standard of Dealings.

MANAGEMENT DISCUSSION AND ANALYSIS

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

As at 30 September 2019, so far as the Directors are aware, the following persons (other than the Directors or chief executive of the Company) had interests or short positions in the Shares or underlying Shares which were recorded in the register required to be kept by the Company under section 336 of the SFO:

Long positions in the Shares

Name of shareholder(s)	Capacity	Number of Ordinary Shares (Note 1)	Approximate percentage of the total number of Shares in issue
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%
Keen Leap Investments Limited ^(Note 3)	Interest in controlled corporation	67,117,500 (L)	22.37%
Keen Leap Investments Limited	Beneficial owner	2,732,000 (L)	0.91%
Mr. Zhang Yao ^(Note 3)	Interest in controlled corporation	69,849,500 (L)	23.28%
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%
Mr. Song Xiao Xing ^(Note 4)	Interest in controlled corporation	44,032,500 (L)	14.68%

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.
- Mr. Zhang Yao beneficially owns the entire issued share capital of Keen Leap Investments Limited which held 2,732,000 Shares directly and 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.

Save as disclosed above, as at 30 September 2019, the Company had not been notified by any persons (other than the Directors or chief executive of the Company) who had interests or short positions in the Shares or underlying Shares which were recorded in the register required to be kept by the Company under section 336 of the SFO.

MANAGEMENT DISCUSSION AND ANALYSIS

SHARE OPTION SCHEME

As at 30 September 2019, 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. 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 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 the 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, 11 November 2019

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.

This report will remain on the "Latest Company Announcements" page of the GEM website at www.hkgem.com for at least 7 days from the date of its posting and be posted on the website of the Company at www.greatwater.com.cn.