

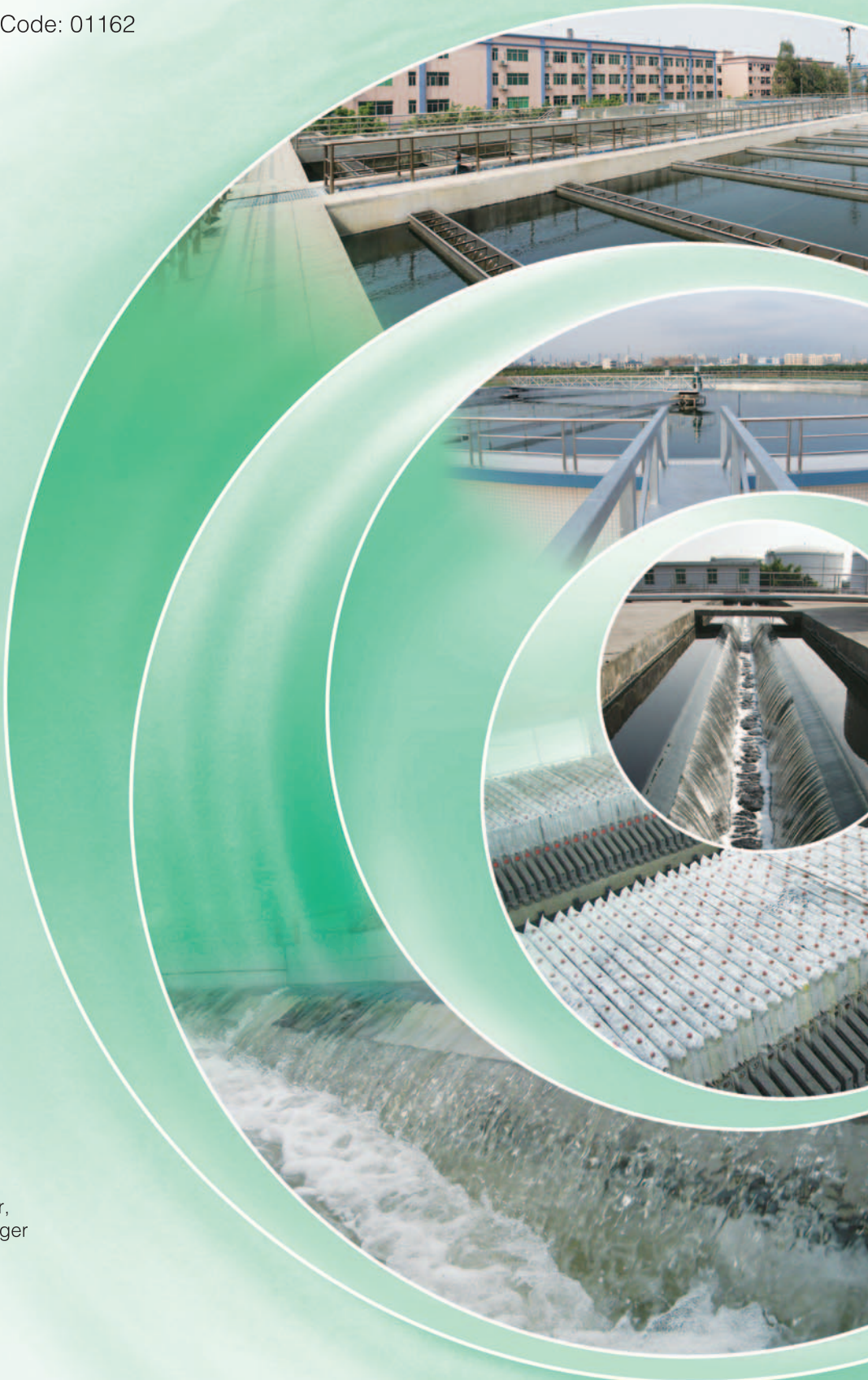


中滔環保

CT Environmental Group Limited 中滔環保集團有限公司

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 01162



GLOBAL OFFERING

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



IMPORTANT

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



中滔環保

CT ENVIRONMENTAL GROUP LIMITED

中滔環保集團有限公司

(incorporated in the Cayman Islands with limited liability)

GLOBAL OFFERING

Number of Offer Shares under the Global Offering	: 291,000,000 Shares, comprising 264,000,000 new Shares to be offered by us and 27,000,000 Sale Shares to be offered by the Selling Shareholder, subject to adjustment and the Over-allotment Option
Number of Hong Kong Offer Shares	: 29,100,000 Shares (subject to adjustment)
Number of International Offer Shares	: 261,900,000 Shares, comprising 234,900,000 new Shares to be offered by us and 27,000,000 Sale Shares to be offered by the Selling Shareholder (subject to adjustment and the Over-allotment Option)
Maximum Offer Price	: HK\$2.38 per Offer Share payable in full on application subject to refund on final pricing, plus brokerage of 1%, Stock Exchange trading fee of 0.005% and SFC transaction levy of 0.003%
Nominal Value	: HK\$0.10 per Share
Stock Code	: 1162

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



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

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

The Offer Price is expected to be fixed by agreement between the Sole Global Coordinator (on behalf of the Underwriters) and us on the Price Determination Date. The Price Determination Date is expected to be on or about June 30, 2011 and, in any event, not later than July 6, 2011. The Offer Price will be not more than HK\$2.38 and is currently expected to be not less than HK\$1.68. Applicants for Hong Kong Offer Shares are required to pay, on application, the maximum offer price of HK\$2.38 for each Hong Kong Offer Share together with brokerage of 1%, SFC transaction levy of 0.003% and Stock Exchange trading fee of 0.005%, subject to refund if the Offer Price should be lower than HK\$2.38. If applications for Hong Kong Offer Shares have been submitted prior to the day which is the last day for lodging applications under the Hong Kong Public Offer, such application can be subsequently withdrawn if the number of Offer Shares and/or the indicative Offer Price range is so reduced.

The Sole Global Coordinator (on behalf of the Underwriters, and with our consent) may reduce the number of Offer Shares and/or the indicative offer price range 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, a notice of the reduction in the number of Offer Shares and/or the indicative offer price range will be published in the South China Morning Post (in English) and Hong Kong Economic Times (in Chinese) not later than the morning of the last day for lodging applications under the Hong Kong Public Offering. Further details are set forth in the sections headed "Structure of the Global Offering — Conditions of the Hong Kong Public Offering" and "How to Apply for Hong Kong Offer Shares" in this prospectus.

If, for any reason, the Sole Global Coordinator (on behalf of the Underwriters) and us are unable to reach an agreement on the Offer Price, the Global Offering will not proceed and will lapse.

The obligations of the Hong Kong Underwriter under the Hong Kong Underwriting Agreement to subscribe for, and to procure applicants for the subscription for, the Hong Kong Offer Shares, are subject to termination by the Sole Global Coordinator (on behalf of the Hong Kong Underwriter) if certain grounds arise prior to 8:00 a.m. on the day that trading in the Shares commences on the Stock Exchange. Such grounds are set out in the section headed "Underwriting — Underwriting Arrangements and Expenses — Hong Kong Public Offering — Grounds for termination" in this prospectus. It is important that you refer to that section for further details.

Prior to making an investment decision, prospective investors should consider carefully all the information set forth in this prospectus, including but not limited to the risk factors set forth in the section headed "Risk Factors" in this prospectus.

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 that the Offer Shares may be offered, sold or delivered to qualified institutional buyers in the United States in reliance on an exemption from registration under the U.S. Securities Act provided by, and in accordance with the restrictions of, Rule 144A or another available exemption from registration under the U.S. Securities Act or outside the United States in offshore transactions in accordance with Rule 903 or Rule 904 of Regulation S under the U.S. Securities Act.

June 24, 2011

EXPECTED TIMETABLE⁽¹⁾

Application lists open ⁽²⁾	11:45 a.m. on Wednesday, June 29, 2011
Latest time to lodge WHITE and YELLOW	
Application Forms	12:00 noon on Wednesday, June 29, 2011
Latest time to give electronic application instructions	
to HKSCC ⁽³⁾	12:00 noon on Wednesday, June 29, 2011
Latest time to complete electronic applications	
under White Form eIPO service through	
the designated website <u>www.eipo.com.hk</u> ⁽⁴⁾	11:30 a.m. on Wednesday, June 29, 2011
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 Wednesday, June 29, 2011
Application lists close	12:00 noon on Wednesday, June 29, 2011
Expected Price Determination Date	Thursday, June 30, 2011
Announcement of	
<ul style="list-style-type: none">• the Offer Price;• the level of applications in the Hong Kong Public Offering;• the level of indications of interest in the International Offering; and• the basis of allotment of the Hong Kong Offer Shares, to be published in South China Morning Post (in English) and Hong Kong Economic Times (in Chinese) on or before	
Thursday, July 7, 2011	
Results of allocations of the Hong Kong Public Offering	
(including successful applicants' identification document	
numbers, where appropriate) to be available through a variety	
of channels (Please refer to the section headed "How to Apply	
for Hong Kong Offer Shares — Publication of Results"	
in this prospectus) from	
Thursday, July 7, 2011	
Results of allocations in the Hong Kong Public Offering	
will be available at <u>www.iporeresults.com.hk</u> ,	
with a "search by ID" function	
Thursday, July 7, 2011	
Dispatch of White Form eIPO e-Refund payment	
instructions/refund checks on or before ⁽⁵⁾	
Thursday, July 7, 2011	
Dispatch of share certificates on or before ⁽⁵⁾	
Thursday, July 7, 2011	
Dealings in Shares on the Stock Exchange expected	
to commence on	
Friday, July 8, 2011	

Notes:

- (1) All times refer to Hong Kong local time, 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.

EXPECTED TIMETABLE⁽¹⁾

- (2) If there is a “black” rainstorm warning or a tropical cyclone warning signal number 8 or above in force at any time between 9:00 a.m. and 12:00 noon on Wednesday, June 29, 2011, the application lists will not open on that day. Further information is set out in the section headed “How to Apply for Hong Kong Offer Shares — When May Applications Be Made — Effect of Bad Weather on the Opening of the Application Lists” in this prospectus. If the application lists do not open on Wednesday, June 29, 2011, the dates mentioned in this section headed “Expected Timetable” may be affected. We will make a press announcement in such event.
- (3) If you apply by giving electronic application instructions to HKSCC, you should refer to the section headed “How to Apply for Hong Kong Offer Shares — How to Apply by Giving Electronic Application Instructions to HKSCC” in this prospectus.
- (4) You will not be permitted to submit your application through the designated website at 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 an application reference number from the designated website prior to 11:30 a.m., you will be permitted to continue the application process (by completing payment of application monies) until 12:00 noon on the last day for submitting applications, when the application lists close.
- (5) We will issue refund checks to you if your application is wholly or partially unsuccessful or if the Offer Price is less than the price per Offer Share payable on application. We will dispatch share certificates (if applicable) and refund checks by ordinary post to you at your own risk to the address you specified in your Application Form unless you have elected for personal collection. If you have applied for 1,000,000 Hong Kong Offer Shares or more and you have indicated in your Application Form that you wish to collect refund checks and/or Share certificates (if applicable) personally, you may collect refund checks and/or share certificates (if applicable) from our Hong Kong 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 July 7, 2011 or any other place and date we announce in the newspapers as the place and date of dispatch of share certificates/e-Refund payment instructions/refund checks. If you are an individual applicant and you have elected for personal collection, you may not authorize any other person to collect on your behalf. If you are a corporate applicant and you have elected for personal collection, you must attend by your authorized representative with your letter of authorization stamped with your corporate chop. Both individuals and authorized representatives must produce, at the time of collection, evidence of identity acceptable to Computershare Hong Kong Investor Services Limited. If you fail to collect within the time specified for collection, we will dispatch uncollected share certificates (if applicable) and refund checks by ordinary post at your own risk to the address specified in the relevant Application Forms. Further information is set out in the section headed “How to Apply for Hong Kong Offer Shares — Dispatch/Collection of Share Certificates and Refund Monies” in this prospectus.

Share certificates will only become valid certificates of title at 8:00 a.m. on July 8, 2011 provided that the Hong Kong Public Offering has become unconditional in all respects and the right of termination described in the section headed “Underwriting — Underwriting Agreements and Expenses — Hong Kong Public Offering — Grounds for termination” has not been exercised and has lapsed, Investors who trade Shares on the basis of publicly available allocation details prior to the receipt of share certificates or prior to the share certificates becoming valid certificates of title do so entirely at their own risk.

For details of the structure of the Global Offering, including its conditions, you should refer to the section headed “Structure of the Global Offering.”

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IMPORTANT NOTICE TO INVESTORS

This prospectus is issued by CT Environmental Group Limited solely in connection with the Hong Kong Public Offering and does not constitute an offer to sell or a solicitation of an offer to buy any security other than the Hong Kong 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 or invitation in any other jurisdiction or in any other circumstances. No action has been taken to permit a public offering of the Offer Shares or the distribution of this prospectus in any jurisdiction other than Hong Kong.

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

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SUMMARY

This summary aims to give you an overview of the information contained in this prospectus. As this is a summary, it does not contain all the information that may be important to you. You should read this prospectus in its entirety 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 that section carefully before you decide to invest in the Offer Shares.

OVERVIEW

We are a provider of one-stop centralized and customized wastewater treatment and industrial water supply services in China focusing on industrial wastewater treatment. Our services cover the whole value chain of wastewater treatment and industrial water supply services industry, from design planning, procurement and construction, to operations and maintenance of the wastewater treatment and water supply facilities. In 2003, we commenced construction of our flagship project, Guangzhou Xinzhou Industrial Park Treatment Facility, at Guangzhou Xinzhou Industrial Park. Such facility was one of the five industrial wastewater treatment projects in Guangdong province that received the “2007 Key National Model Project for Practical Technology in Environmental Protection” (2007年國家重點環保實用技術示範工程) award granted by the China Environmental Protection Association (中國環境保護產業協會). According to the Ernst & Young Report, this industrial park is one of the leading textile and dyeing industrial parks in China in terms of wastewater treatment capacity. It has also been recognized by the Guangdong Province Environmental Protection Association as a leading industrial park with the largest centralized wastewater treatment facilities in terms of treatment capacity for the textile industry in the province.

Our principal business is the provision of industrial wastewater treatment and industrial water supply services. We also take on certain projects to provide municipal wastewater treatment services if we consider such projects to be beneficial to us, taking into account factors such as profit margins and development of relationships with local governments. In general industrial wastewater treatment and industrial water supply services have a higher gross profit margin than municipal wastewater treatment services, according to the Ernst & Young Report. Some of our treatment facilities can treat a mixture of industrial and municipal wastewater.

We focus on developing centralized and cost-efficient wastewater treatment facilities for industrial parks or clusters. Many local governments are increasingly promoting the large-scale development of selected industries in the form of specialized industrial parks or clusters. We expect this trend to continue and intend to capitalize on the anticipated industrial growth by actively seeking business opportunities in and further expanding our operations to other parts of China such as Sichuan, Hubei, Jiangxi and Guangxi provinces. We believe our strong track record in providing centralized wastewater treatment and industrial water supply services positions us well to capitalize on the continued industrial growth in China.

We have historically focused on providing treatment services to the textile industry. We are headquartered in Zengcheng city, Guangdong province, which produced more than 60% of the denim apparel in China in 2008 according to the Urban Planning Bureau of Zengcheng city, Guangdong province. In 2003, we commenced construction of our flagship project, the Guangzhou Xinzhou Industrial Park Treatment Facility, and as of December 31, 2010, we had provided wastewater treatment services to 26 companies in the textile industry in Zengcheng city, Guangdong province. We have expanded our business and operations considerably over the past few years. We currently have three wastewater treatment plants and one industrial water supply plant in operation located in Guangdong province and one wastewater treatment plant in operation located in Hunan province. These facilities have an aggregate constructed capacity of 215,000 m³ per day for wastewater treatment and 150,000 m³ per day for industrial water supply. For the month ended December 31, 2010, these facilities had an aggregate daily average utilized capacity of 184,796 m³ per day for

SUMMARY

wastewater treatment and 94,542 m³ per day for industrial water supply. We recently commenced operations at our Huaihua Tianyuan Treatment Facility servicing nine companies. This project signifies our expansion of wastewater treatment services from the textile industry to other industries, such as the pulp and paper-making industry as well as the food and beverage industry. We expect to leverage our successful experience in providing centralized wastewater treatment services in the development of our new projects.

Our total turnover had grown rapidly during the Track Record Period from HK\$81.6 million in 2008 to HK\$137.8 million in 2009 and to HK\$361.4 million in 2010, representing a CAGR of 110.5%. Our total turnover was HK\$71.3 million for the three months ended March 31, 2011. Our profit attributable to equity holders of our Company also grew rapidly during the Track Record Period, from HK\$36.8 million in 2008 to HK\$74.2 million in 2009 and to HK\$120.9 million in 2010, representing a CAGR of 81.3%. Our profit attributable to equity holders of our Company was HK\$33.6 million for the three months ended March 31, 2011. Our overall high gross profit margin during the Track Record Period was primarily attributable to economies of scale from the provision of centralized wastewater treatment services to multiple customers and the increase in the unit price charged for wastewater treatment services by Guangzhou Xinzhou Industrial Park Treatment Facility. For more details, please refer to the section headed “Financial Information — Description of Selected Income Statement Line Items — Gross profit and gross profit margin.”

Core Business — Wastewater Treatment and Industrial Water Supply Services

We focus on providing integrated, customized, centralized and large-scale industrial wastewater treatment and water supply services in a cost-effective and timely manner. Our services encompass the whole value chain of the wastewater treatment and industrial water supply services industry, which covers the processes of project selection, project design, execution and project management, procurement and construction, as well as ongoing operation and maintenance of wastewater treatment and water supply facilities.

Wastewater Treatment — BOO and BOT Project Models

We use either the Build-Own-Operate (“BOO”) or Build-Operate-Transfer (“BOT”) project model to provide our wastewater treatment services. The differences between our BOO and BOT project models are summarized below. For more details, please refer to the sections headed “Industry Overview — China’s Wastewater Treatment Industry — Wastewater Treatment Operating Modes” and “Business — Our Project Management Process.”

For our BOO projects, the relevant project company builds, owns and operates the facility and retains all of the surplus operating revenue. The project company is responsible for financing the project and relevant land acquisition costs, and designing, constructing, operating and managing the project. BOO projects are more commonly used for industrial wastewater treatment, including construction projects in industrial parks where the local government may not have sufficient capital to finance treatment facilities. The government does not generally provide direct funding for BOO projects, but may offer other financial incentives such as tax reductions or tax holidays. We typically finance our BOO projects through a combination of our own funds and bank loans secured by the project company’s assets. We cooperate with the local government in the development of the relevant industrial park, starting from the master-planning process, followed by the design, construction and commencement of operation of our facilities. We further collaborate with the local government in attracting customers to join the industrial parks. BOO projects can generally earn a higher profit as, unlike our BOT projects, they are not subject to fixed government tariffs, and we thus have greater flexibility in formulating pricing policy and passing increased costs to our customers. The relevant local government will recommend a maximum price for each BOO project, and a project company can apply to the relevant government authority to increase this recommended maximum price. In general, the return on equity for BOO projects is on average higher than that for BOT projects. For our BOO

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projects, we rely on certain significant customers, particularly in the textile industry. We intend to increase our return on investment for these projects by expanding our operations and engaging more customers. In general, growth in BOO wastewater treatment projects is primarily driven by industrialization as well as government policy on reducing industrial pollution.

For our BOT projects, the relevant government or industry player grants the operational right to the relevant project company, which builds and operates the facility for a specified period pursuant to a concession agreement, and transfers ownership of the project facility to the government or other specified party at the end of the specified concession period, generally for nil consideration. The project company is responsible for financing, designing, constructing, operating and managing the project for the duration of this specified concession period. BOT projects can generally be adopted in both municipal and industrial wastewater treatment projects. However, we currently mainly use the BOT project model primarily to provide municipal wastewater treatment services. BOT projects are acquired by means of a government-mandated open tender process, and are routinely monitored by the authorities in charge of supervising municipal public utilities. We are required to transfer the treatment facilities to the relevant local governments for nil consideration upon the expiry of the concession period. Further, we are generally required to carry out comprehensive repair works prior to this transfer, and in some cases provide a warranty period of 12 months following the transfer. In general, BOT project companies receive a stable return on investment during the concession period to cover initial costs as well as operation and maintenance fees by receiving periodic payments from the government or industry player, as applicable, for wastewater treatment services. Unlike BOO projects for which wastewater treatment prices may be freely negotiated subject to a government-recommended maximum price, tariffs for BOT projects are determined by a pricing adjustment formula consisting of factors such as interest rates and utility prices. These cost factors are generally reviewed every two or three years or as designated in the concession agreement. If costs have exceeded the designated range, the project company has the right to request the payment to increase correspondingly subject to the government's approval. Due to this limitation on pricing flexibility, BOT projects in general earn lower profit margins and return on investment than BOO projects. In general, growth in BOT wastewater treatment projects is driven by urbanization and the government's increasing promotion of environmental protection policies.

Wastewater Treatment — BOO and BOT Project Accounting Treatment

The accounting treatment of a BOT project is different from that of a BOO project. The mix of BOO and BOT project models will have an impact on our turnover and cost recognition, cash flows and gross profit margin during the relevant periods. The differences in the accounting treatment of our BOO model and BOT model are summarized below. For more details, please refer to the sections headed "Financial Information — Description of Selected Income Statement Line Items — Turnover" and "Financial Information — Factors Affecting Our Results of Operations — Project Model Mix."

For our BOO projects, we recognize turnover when wastewater treatment services are rendered during the operational phase. We record the amount of turnover recognized from the provision of wastewater treatment services in our combined income statement. Outsourcing costs related to the construction of our facilities, as well as property, plant and equipment used in providing such services are capitalized as fixed assets. Depreciation of such property, plant and equipment is recognized in profit or loss on a straight-line basis over the estimated useful lives less their estimated residual value. Unlike BOT projects, the accounting treatment for BOO projects does not involve any estimation or recognition of construction turnover.

Our BOT projects are considered as service concession arrangements under HK (IFRIC) 12. As such, we recognize turnover from a BOT project during both the construction phase and the operational phase, while we generally only receive payments for our services rendered during the operational phase. Turnover for the construction phase expected to be generated from a BOT project is estimated and valued at the time the relevant contracts for the project are entered into. During the construction phase, we recognize turnover for construction services under our BOT projects on the basis of the percentage of completion. Turnover recognized during the operational phase accounts for

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the remainder of the total turnover from such BOT projects. For more details, please refer to the sections headed “Financial Information — Description of Selected Income Statement Line Items — Turnover” and “Financial Information — Factors Affecting Our Results of Operations — Project Model Mix.”

For our BOO projects, we recognize turnover when we provide wastewater treatment services under the operational phase and we normally expect to receive the cash flow matching the recognized turnover within the credit period granted to our customers. We generally do not receive any payment during the construction phase of our BOT projects. The actual cash inflow for our construction turnover from our BOT projects will only be received in the form of cash tariff payments during the operational phase of the relevant BOT projects, which can be up to 30 years. If we undertake more BOT projects in the future, this will result in a significant cash flow mismatch as we may not have the cash inflow matching the turnover recognized during the construction phase of our BOT projects.

Municipal Waste-to-Energy Project

Pursuant to a joint venture memorandum of understanding (the “MOU”) entered into between Guangzhou To Kee and Guangri Group dated December 18, 2010, both parties will jointly establish a project company in which each party will hold a 50% interest in relation to a waste-to-energy project. Guangzhou To Kee will cooperate with Guangri Group in the daily management of the project company as well as the construction and operation of the project in Zengcheng city, Guangdong province. Guangri Group will be responsible to provide the technology and expertise required for the waste-to-energy project. Guangzhou To Kee is responsible for obtaining the relevant local approvals and construction permits for the project, as well as handling land acquisitions and public relations matters in Zengcheng city, while Guangri Group is responsible for obtaining the relevant municipal and provincial level approvals, construction permits and other related technical matters in Guangdong province and Guangzhou city. On January 5, 2011, Guangzhou Xintao entered into a separate agreement with Guangzhou To Kee, pursuant to which Guangzhou To Kee transferred all the rights and obligations of the memorandum of understanding to Guangzhou Xintao. The Company’s involvement in the waste-to-energy project has therefore moved beyond a preliminary discussion stage and the Company has contractual rights and obligations in relation to the development of the waste-to-energy project. Such transfer of rights and obligations did not involve any transfer fees or taxes and had been expressly acknowledged by Guangri Group. The first phase of the municipal waste-to-energy project is expected to have the capacity to treat 2,000 tonnes of municipal waste per day. The estimated investment amount is approximately RMB800.0 million, borne in equal proportions by the joint venture parties, of which we expect to fund RMB120.0 million from our own resources, in line with our intention to fund 30% of our total investment amounts from our own resources. We expect the project to commence operations in 2013. The main source of revenue for this project will be from the provision of waste incineration services (which in turn generates electricity) and other ancillary services. According to our PRC legal counsel, the MOU, as well as the abovementioned agreement entered into in relation to the waste-to-energy project, is legally binding and enforceable under the PRC law.

We intend to fund the waste-to-energy project using proceeds from the Global Offering and bank borrowings. Since the municipal waste-to-energy project is intended to bring about environmental benefits, the project has received strong support from the local government, which we believe will facilitate our ability in obtaining the necessary funding from banks. Accordingly, our Directors are of the view that we have sufficient resources to develop the municipal waste-to-energy project. Pursuant to the MOU, as Guangri Group has the expertise in operating a waste incineration and power generation plant and also possesses advanced waste incineration technology and equipment, Guangri Group will be responsible to provide the technology and expertise required for the waste-to-energy project. We intend to leverage the expertise and experience that Guangri Group has in the area of waste incineration and at the same time, build up our experience in the management of this project. Our Directors are of the view that through close cooperation with Guangri Group, we have the necessary managerial expertise to develop the municipal waste-to-energy project. For more details, please refer to the section headed “Business — Our Waste-to-Energy Project.”

SUMMARY

Sludge Treatment

We currently treat sludge produced as a by-product of our wastewater treatment through a comprehensive treatment process, and give the post-treated sludge to a licensed third party for legitimate industrial use or disposal. Currently we do not sell the post-treated sludge products. Our solar industrial sludge drying system used in the sludge treatment process mainly reduces the water content in the sludge. Post-treated sludge may be used as a component of fuel substitute by blending with additional fuels such as coal for use in certain manufacturing processes.

Our sludge treatment facilities are located in Guangzhou Xintao Wastewater Treatment Facility. The planned design capacity of sludge treatment for third parties will be approximately 90 tonnes per day for post-treated sludge having water content of no more than 45%. We intend to use the solar sludge drying technology in the sludge treatment project. Additional facilities and equipment, such as post-treated sludge handling units and distribution pipes, will be required for our expansion in sludge treatment for third parties. The estimated investment amount is approximately RMB25.8 million. We plan to complete the construction of the entire sludge drying system within 2011 and thereafter apply for the Sludge Treatment Permit in accordance with the requirements of the Guangdong Province Solid Waste Treatment Administrative Licensing Implementation Measures (廣東省嚴控廢物處理行政許可實施辦法). Upon receiving such permit, we may provide sludge treatment services to licensed third parties. For more details, please refer to the section headed “Business — Our Sludge Treatment Process.”

Heating Services

As a complementary business, we intend to also provide heating services to our customers in Guangzhou Xinzhou Industrial Park. The provision of central heating services was planned to be a part of Guangzhou Xinzhou Industrial Park at the outset, and was delayed because the conditions within the park necessary for such implementation were not in place at the time. As such, the individual facilities within the park had installed small-scale boilers to meet their respective heating needs. We are pursuing this project because conditions within the park have now made it more feasible for central heating services to be provided within the park, and the relevant environmental protection bureau has requested that factories replace small-scale boilers with a central heating service as soon as possible. Pursuant to an agreement and a supplementary agreement for the provision of heating services entered into on January 26, 2011 between Guangzhou Xintao and Guangzhou Development Xintang Heat Co. Ltd (“Xintang Heat”), we intend to procure heating from Guangzhou Development Xintang Heat Co. Ltd., which provides heating services to customers outside the industrial park, but does not currently provide any such service within the park. We in turn provide heating services to our customers in Guangzhou Xinzhou Industrial Park. Guangzhou Xintao has already applied to and received approval from the relevant authorities to expand its scope of business to include the provision of central heating services. Our PRC legal counsel has advised us that no additional special permits or licenses are required for Guangzhou Xintao to provide central heating services in Guangzhou Xinzhou Industrial Park. We believe that, by providing central heating services in Guangzhou Xinzhou Industrial Park, we can benefit both the environment and the companies within the park, including Guangzhou Xintao. The estimated investment amount is approximately RMB15.0 million and we expect to commence providing such heating services in the second half of 2011. The main source of revenue will be payments from customers for the provision of heating services. For more details, please refer to the section headed “Business — Our Projects — Guangzhou Xinzhou Industrial Park Treatment Facility.”

While we intend to expand our operations into other waste treatment areas, the provision of wastewater treatment services will continue to be our core business in the future. Please refer to the section headed “Risk Factors” for more information on the risks associated with our business and future development.

SUMMARY

OUR COMPETITIVE STRENGTHS

We believe we have the following competitive strengths that differentiate us from our competitors in the wastewater treatment and industrial water supply services industry in China:

- Experience in providing integrated, customized, centralized and large-scale industrial wastewater treatment and water supply services
- Early mover in the wastewater treatment and industrial water supply services industry
- Strong in-house R&D and technical capabilities
- Well-positioned to benefit from the increasing focus by the PRC Government on environmental protection and favorable governmental policies
- Strong and stable relationships with the local governments
- Experienced and professional management team supported by a skilled work force

OUR BUSINESS STRATEGIES

We seek to enhance shareholder value by maintaining and enhancing our position in China's wastewater treatment and industrial water supply market, as well as gradually expanding into other waste treatment businesses. The strategies that we have adopted to attain this goal include the following principal elements:

- Expand operations through organic growth
- Continue to strengthen our R&D and technical capabilities
- Enhance brand recognition
- Selectively pursue acquisitions and strategic alliance opportunities
- Expand into other environmental protection businesses such as municipal waste-to-energy and sludge treatment

SUMMARY

OUR PROJECTS

The tables below set forth information on our significant projects:

Project	Location	Project Model	Estimated/Actual Total Investment Amount ⁽¹⁾ (RMB in millions)	Industry	Description	Water Supply Capacity (m ³ per day)				Wastewater Treatment Capacity (m ³ per day)				End of Concession Period		
						Total Designed Capacity	Constructed capacity as of December 31, 2010 ⁽²⁾	Utilized capacity as of December 31, 2010 ⁽³⁾	Average daily volume of water supply for year 2010 (m ³)	Volume of water supply for the Track Record Period (m ³)	Total Designed Capacity	Constructed Capacity as of December 31, 2010 ⁽²⁾	Utilized capacity as of December 31, 2010 ⁽³⁾		Average daily volume of wastewater treated for year 2010 (m ³)	Volume of wastewater treated for the Track Record Period (m ³)
Guangdong province																
Guangzhou Xinzhou Industrial Park Treatment Facility (Phase I and Phase II) ⁽⁵⁾	Zengcheng city	BOO	140.0	Textile	Industrial wastewater treatment and water supply for industrial use	150,000	150,000	94,542	90,413	16,775,454 (2008) 25,601,866 (2009) 33,000,824 (2010)	100,000	100,000	81,756	78,749	14,589,876 (2008) 22,185,613 (2009) 28,743,338 (2010)	N/A
Longmen Xin Wastewater Treatment Facility (Phase I and Phase II) ⁽⁵⁾	Huizhou city	BOT	17.4	Municipal	Municipal wastewater treatment	—	—	—	—	—	20,000	19,031	18,447	— (2008) 717,779 (2009) 6,733,088 (2010)	Phase I: August 12, 2009 Phase II: To be determined after passing of the trial operation period August 31, 2005	
Yonghe Hainao Wastewater Treatment Facility — Phase I ⁽⁵⁾⁽⁷⁾	Zengcheng city	BOT ⁽⁶⁾	59.6	Municipal and commercial laundry	Municipal and industrial wastewater treatment	—	—	—	—	—	50,000	50,367	26,085 ⁽⁹⁾	— (2008) — (2009) 4,799,643 (2010)	To be determined after completion	
Yonghe Hainao Wastewater Treatment Facility — Phase II	Zengcheng city	BOT	100.0	Textile	Industrial wastewater treatment	—	—	—	—	—	50,000	—	—	—	To be determined after completion	
Hunan province																
Huailua Hanyuan Treatment Facility — Phase I ⁽⁵⁾⁽⁷⁾	Huailua city	BOT	53.2	Municipal, Pulp and paper-making, food and beverage	Municipal and industrial wastewater treatment	—	—	—	—	—	45,000	33,442	25,780 ⁽⁹⁾	— (2008) — (2009) 4,743,507 (2010)	April 30, 2005	
Huailua Hanyuan Treatment Facility — Phase II	Huailua city	BOT	45.0	Municipal, Pulp and paper-making, food and beverage	Municipal and industrial wastewater treatment	—	—	—	—	—	55,000	—	—	—	To be determined after completion	
Sichuan province																
Sichuan Guangyuan Textile and Apparel Technology Industrial Park Treatment Facility ⁽⁶⁾	Guangyuan city	BOO	208.0	Textile	Industrial wastewater treatment and water supply for industrial use	100,000	—	—	—	—	100,000	—	—	—	N/A	
			633.2			250,000	150,000	94,542	90,413	16,775,454 (2008) 25,601,866 (2009) 33,000,824 (2010)	420,000	215,000	184,796	149,061	14,589,876 (2008) 22,903,392 (2009) 45,019,576 (2010)	

SUMMARY

- (1) Total Investment Amount represents the design cost, construction cost, procurement cost and land use right (for the BOO projects) incurred or to be incurred in the design, development and construction of the respective projects.
- (2) Constructed capacity represents the total capacity of the relevant facility following the completion of construction.
- (3) This was calculated based on the average daily volume of wastewater treated or industrial water supplied, as applicable, by the relevant facilities for the month ended December 31, 2010.
- (4) Utilization Rate is calculated by dividing utilized capacity as of December 31, 2010 by constructed capacity as of December 31, 2010. The utilization rate may not be reflective of the utilization rate for the full year of 2010.
- (5) Guangzhou Xinzhou Industrial Park Treatment Facility, Longmen Xilin Treatment Facility, Yonghe Haitao Treatment Facility (Phase I) and Huaihua Tianyuan Treatment Facility (Phase I) have commenced formal operations. For more details, please refer to the section headed "Business — Environmental Matters."
- (6) The utilization rate relating to the water supply capacity of Guangzhou Xinzhou Industrial Park Treatment Facility is based on the water supplied by the Guangzhou Kaizhou Water Supply Facility, which operates as a part of Guangzhou Xinzhou Industrial Park Treatment Facility, and was low primarily because Guangzhou Kaizhou has yet to commence supplying industrial water to the adjacent area of Guangzhou Xinzhou Industrial Park. Guangzhou Kaizhou was designed with a capacity large enough to supply water to customers both within the industrial park and in the adjacent area, and it will not approach full capacity until pipes are connected to such adjacent area. Guangzhou Kaizhou intends to connect pipes from the facility to such adjacent area and upon completion, Guangzhou Kaizhou Water Supply Facility will supply industrial water to customers located in such adjacent area. Guangzhou Kaizhou Water Supply Facility is part of Guangzhou Xinzhou Industrial Park Treatment Facility and is not a standalone project.
- (7) The differences between the utilized capacity as at December 31, 2010 and the average daily volume of wastewater treated for the year 2010 for each of Yonghe Haitao Treatment Facility (Phase I) and Huaihua Tianyuan Treatment Facility (Phase I) are mainly due to these facilities having commenced operations only in the second half of 2010 and were treating a level of wastewater that was lower than what it would had the facilities been at mature stage of operations. Going forward, we expect the utilization rates of Yonghe Haitao Treatment Facility (Phase I) and Huaihua Tianyuan Treatment Facility (Phase I) to increase.
- (8) Our turnover from the provision of industrial wastewater treatment services to Tian Tian at Yonghe Haitao Treatment Facility (Phase I) is classified as turnover under BOO projects because our services to Tian Tian are governed by our separate agreement with Tian Tian and are not governed by the relevant BOT agreement pertaining to Yonghe Haitao Treatment Facility (Phase I).
- (9) Yonghe Haitao Treatment Facility (Phase I) and Huaihua Tianyuan Treatment Facility (Phase I) commenced operation only in the second half of 2010. As such, these figures were calculated based on the volume treated from July 2010 to December 2010.
- (10) On March 29, 2011, Hong Kong To Kee and Xi Zhou Enterprises entered into an agreement with, among others, the Sichuan Guangyuan Municipal Government and the Guangyuan Lizhou District Government. Pursuant to this agreement, we will develop wastewater treatment and industrial water supply facilities in Guangyuan's textile industrial park.

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Project	Name of Project Company	Actual / Expected Date of Construction and Trial Operation Commencement	Estimated Outstanding Investment Amount as of December 31, 2010	Service Fee (per m ³) as of December 31, 2010 ⁽¹⁾	Turnover Generated							
					For the year ended December 31,			For the three months ended March 31,				
					2008	2009	2010	2008	2009	2010	2011	
					HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
Guangzhou Xinzhou Industrial Park Treatment Facility (Phase I and Phase II)	Guangzhou Xinzhou Environmental Protection Industrial Park Company Limited; Guangzhou Kaizhou Water Supply Company Limited; and Guangzhou Xintao Wastewater Treatment Company Limited	Date of construction commencement: Phase I: September 2003 Phase II: May 2008 Date of trial operation commencement: Phase I: January 2005 Phase II: March 2009	—	Guangzhou Kaizhou: RMB1.1 Guangzhou Xintao: RMB5.1	—	—	—	—	—	—	—	—
					58,983	96,950	168,341	28,344	48,568			
					17,793	27,409	37,002	6,876	10,758			
					76,776	124,359	205,343	35,220	59,326			
										Construction services		
										Finance income		
										Wastewater treatment turnover.....	168,341	48,568
										Industrial water supply turnover	37,002	10,758
										Total.....	205,343	59,326

SUMMARY

Project	Name of Project Company	Actual / Expected Date of Construction and Trial Operation Commencement	Estimated Outstanding Investment Amount as of December 31, 2010	Service Fee (per m ³) as of December 31, 2010 ⁽¹⁾	Turnover Generated					
					For the year ended December 31,		For the three months ended March 31,			
					2008	2009	2010	2011		
			HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000		
Longmen Xilin Treatment Facility (Phase I and Phase II)	Longmen Xilin Wastewater Treatment Company Limited	Date of construction commencement: Phase I: May 2008 Phase II: October 2009	—	RMB0.9	Construction services	4,694	10,208	6,776	1,682	—
					Finance income	116	541	1,106	231	316
					Wastewater treatment turnover	—	1,249	5,475	1,301	1,390
					Industrial water supply turnover	—	—	—	—	—
Total			4,810	11,998	13,357	3,214	1,706			
Yonghe Haitao Treatment Facility (Phase I and Phase II)	Guangzhou Haitao Environmental Protection Technology Company Limited	Date of construction commencement: Phase I: December 2009 Phase II: July 2011	RMB100.0 million for Phase II	RMB0.8 ⁽²⁾	Construction services	—	1,397	74,354	22,012	—
					Finance income	—	3	2,846	184	1,136
					Wastewater treatment turnover	—	—	6,463 ⁽³⁾	—	4,739 ⁽³⁾
					Industrial water supply turnover	—	—	—	—	—
Total			—	1,400	83,663	22,196	5,875			
Huaihua Tianyuan Treatment Facility (Phase I and Phase II)	Huaihua Tianyuan Wastewater Treatment Company Limited	Date of construction commencement: Phase I: July 2009 Phase II: July 2011	RMB45.0 million for Phase II	RMB 1.1	Construction services	—	—	49,937	13,976	—
					Finance income	—	—	2,809	260	1,057
					Wastewater treatment turnover	—	—	6,335	—	3,300
					Industrial water supply turnover	—	—	—	—	—
Total			—	—	59,081	14,236	4,357			

SUMMARY

Project	Name of Project Company	Actual / Expected Date of Construction and Trial Operation Commencement	Estimated Outstanding Investment Amount as of December 31, 2010	Service Fee (per m ³) as of December 31, 2010 ⁽¹⁾	Turnover Generated				
					For the year ended December 31,				
					2008	2009	2010	2011	For the three months ended March 31,
			HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
Sichuan Guangyuan Textile and Apparel Technology Industrial Park Treatment Facility	Guangyuan Xizhou Environmental Enterprises Company Limited	Expected date of construction commencement: Phase I: June 2011 Expected date of trial operation commencement: Phase I: December 2011	RMB208.0 million	N/A	N/A	N/A	N/A	N/A	N/A

- (1) For our BOT projects, the service fee is calculated based on the relevant BOT agreements. For our Guangzhou Xinzhou Industrial Park Treatment Facility, the service fees are calculated by dividing the total fees received for the year of 2010 by the actual volume of wastewater treated or water supplied, as applicable, for the year of 2010.
- (2) According to the Yonghe Haitao wastewater treatment service agreement, the service fee for treating municipal wastewater in Yonghe Haitao Treatment Facility is RMB0.8 per m³. When providing industrial wastewater treatment services to Tian Tian, the service fee is RMB23.0 per m³, pursuant to the agreement entered into between Guangzhou Haitao and Tian Tian on June 30, 2010.
- (3) The wastewater treatment turnover generated by Yonghe Haitao Treatment Facility (Phase I) includes (1) HK\$3,051,000 and HK\$2,896,000 received from the local government, which was classified as turnover from BOT project for the year ended December 31, 2010 and three months period ended March 31, 2011 respectively and (2) HK\$3,412,000 and HK\$1,843,000 received from Tian Tian for the year ended December 31, 2010 and three months period ended March 31, 2011 respectively, which was classified as turnover from BOO project.

SUMMARY

SUMMARY FINANCIAL INFORMATION

The following tables summarize our combined historical financial information during the years ended December 31, 2008, 2009 and 2010 and three months ended March 31, 2010 and 2011. The summary of combined balance sheets as of December 31, 2008, 2009 and 2010 and March 31, 2010 and 2011 and the summary of combined income statements and the summary of combined statements of cash flows data for the years ended December 31, 2008, 2009 and 2010 and the three months ended March 31, 2010 and 2011 included in the following tables should be read in conjunction with our combined financial information included in the Accountants' Report in Appendix I to this prospectus. Our combined financial information has been prepared in accordance with HKFRS.

Summary Data of Combined Income Statements

	For the year ended December 31,			For the three months ended March 31,	
	2008	2009	2010	2010	2011
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
				(unaudited)	
Turnover	81,586	137,757	361,444	74,866	71,264
Cost of sales	(35,102)	(46,269)	(174,419)	(44,402)	(19,519)
Gross profit	46,484	91,488	187,025	30,464	51,745
Other revenue	67	8,916	14,965	7,841	3,662
General and administrative expenses	(5,852)	(6,237)	(31,225)	(2,945)	(9,191)
Other operating expenses	(2,286)	(537)	(1,818)	(177)	(133)
Profit from operations	38,413	93,630	168,947	35,183	46,083
Finance costs	—	(16,082)	(17,689)	(3,440)	(4,051)
Profit before taxation	38,413	77,548	151,258	31,743	42,032
Income tax	(1,908)	(3,663)	(24,956)	(5,080)	(7,798)
Profit for the year/period	36,505	73,885	126,302	26,663	34,234
Attributable to:					
- Equity holders of the Company	36,772	74,238	120,874	25,570	33,555
- Non-controlling interests	(267)	(353)	5,428	1,093	679
Profit for the year/period	36,505	73,885	126,302	26,663	34,234
Gross profit margin ⁽¹⁾	57.0%	66.4%	51.7%	40.7%	72.6%
Net profit margin ⁽²⁾	44.7%	53.6%	34.9%	35.6%	48.0%

(1) Calculated as gross profit divided by turnover.

(2) Calculated as profit for the year/period divided by turnover.

SUMMARY

The following table sets forth the amount of our turnover contributed by each of our business segments for the periods indicated:

	For the year ended December 31,						For the three months ended March 31,			
	2008		2009		2010		2010		2011	
	HK\$'000	% of Total	HK\$'000	% of Total	HK\$'000	% of Total	HK\$'000	% of Total	HK\$'000	% of Total
BOO projects										
Wastewater treatment services ⁽¹⁾	58,983	72.3%	96,950	70.4%	171,753	47.5%	28,344	37.9%	50,411	70.7%
Industrial water supply	17,793	21.8%	27,409	19.9%	37,002	10.2%	6,876	9.2%	10,758	15.1%
Sub-total	76,776	94.1%	124,359	90.3%	208,755	57.7%	35,220	47.1%	61,169	85.8%
BOT projects										
Construction services	4,694	5.8%	11,605	8.4%	131,067	36.3%	37,670	50.3%	—	—
Wastewater treatment services	—	—	1,249	0.9%	14,861	4.1%	1,301	1.7%	7,586	10.7%
Finance income	116	0.1%	544	0.4%	6,761	1.9%	675	0.9%	2,509	3.5%
Sub-total	4,810	5.9%	13,398	9.7%	152,689	42.3%	39,646	52.9%	10,095	14.2%
Total	81,586	100.0%	137,757	100.0%	361,444	100.0%	74,866	100.0%	71,264	100.0%

(1) Our turnover from the provision of industrial wastewater services to Tian Tian at Yonghe Haitao Treatment Facility (Phase I) is classified as turnover under BOO projects because our services to Tian Tian are governed by our separate agreement with Tian Tian and are not governed by the relevant BOT agreement pertaining to Yonghe Haitao Treatment Facility (Phase I). We sought and obtained oral consent from the local government of Xintang town in Zengcheng city, Guangdong province in June 2010 before the commencement of our provision of wastewater treatment services to Tian Tian and subsequently obtained a written confirmation from the local government of Xintang town in relation to our provision of wastewater treatment services to Tian Tian in March 2011.

SUMMARY

Summary Data of Combined Balance Sheets

	As of December 31,			As of
	2008	2009	2010	March 31, 2011
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Non-current assets				
Property, plant and equipment	115,727	108,369	116,773	167,990
Lease prepayments	8,388	8,160	8,193	8,213
Intangible assets	—	—	9,172	9,171
Investment in equity securities	5,670	5,678	—	—
Gross amounts due from customers for contract work	4,045	12,808	161,293	162,105
Deferred tax assets	—	—	905	527
	<u>133,830</u>	<u>135,015</u>	<u>296,336</u>	<u>348,006</u>
Current assets				
Inventories	297	431	353	783
Trade and other receivables	257,526	263,594	389,854	223,866
Gross amounts due from customers for contract work	806	3,403	12,529	12,815
Cash and cash equivalents	<u>29,920</u>	<u>63,571</u>	<u>16,365</u>	<u>57,419</u>
Subtotal	288,549	330,999	419,101	294,883
Current liabilities				
Trade and other payables	87,206	69,201	118,935	105,058
Loans and borrowings	37,646	13,628	17,644	19,613
Current taxation	—	—	10,542	10,477
Subtotal	124,852	82,829	147,121	135,148
Net current assets	163,697	248,170	271,980	159,735
Total assets less current liabilities	<u>297,527</u>	<u>383,185</u>	<u>568,316</u>	<u>507,741</u>
Non-current liabilities				
Loans and borrowings	245,830	237,020	301,658	301,881
Deferred tax liabilities	1,924	5,593	11,656	8,233
	<u>247,754</u>	<u>242,613</u>	<u>313,314</u>	<u>310,114</u>
Net assets	<u>49,773</u>	<u>140,572</u>	<u>255,002</u>	<u>197,627</u>
Equity				
Share capital	5,666	5,666	10	10
Reserves	<u>41,614</u>	<u>116,076</u>	<u>247,454</u>	<u>189,172</u>
Total equity attributable to equity holders of the Company	47,280	121,742	247,464	189,182
Non-controlling interests	<u>2,493</u>	<u>18,830</u>	<u>7,538</u>	<u>8,445</u>
Total equity	<u>49,773</u>	<u>140,572</u>	<u>255,002</u>	<u>197,627</u>

SUMMARY

Summary Data of Combined Cash Flow Statements

	For the year ended December 31,			For the three months ended March 31,	
	2008	2009	2010	2010	2011
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
				(unaudited)	
Net cash generated from/(used in) operating activities	57,295	63,708	10,434	(5,427)	20,657
Net cash (used in)/generated from investing activities	(325,643)	19,182	(101,173)	(17,140)	120,294
Net cash generated from/(used in) financing activities	283,543	(49,293)	42,886	(6,822)	(100,093)
Cash and cash equivalents at end of the year/period	29,920	63,571	16,365	34,945	57,419

PROFIT FORECAST FOR THE YEAR ENDING DECEMBER 31, 2011

We believe that, in the absence of unforeseen circumstances and on the bases and assumptions set out in this prospectus, our forecast profit attributable to equity holders of the Company for the year ending December 31, 2011 is set out below:

Forecast profit attributable to equity holders

of the Company⁽¹⁾⁽²⁾⁽³⁾ Not less than HK\$200 million

Pro forma forecast earnings per share⁽⁴⁾ Not less than HK\$0.17

Notes:

- (1) The bases and assumptions in preparing the forecast consolidated profit attributable to equity holders of the Company for the year ending December 31, 2011 are summarized in Appendix III to this prospectus.
- (2) Our business and operations have in the past been, and will continue to be, affected by a number of factors. For further details of such factors, please refer to the sections headed “Forward-Looking Statements”, “Risk Factors” and “Financial Information — Factors Affecting Our Results of Operations” in this prospectus.
- (3) The Directors believe that the profit forecast for the year ending December 31, 2011 is fair and reasonable after due consideration of the facts and recent developments of the Group including: (i) an increase in the average daily volume of wastewater treated and industrial water supplied for the month of March 2011 compared with that of the month of December 2010; (ii) an increased number of customers for Guangzhou Xintao (from 26 in December 2010 to 30 in March 2011) and Guangzhou Kaizhou (from 22 in December 2010 to 24 in March 2011) and an increase in demand from each individual customer; (iii) an increase in the average price of wastewater treated due to an increase in the proportion of treated wastewater with higher margins and an expected price increase in July 2011 for Guangzhou Xinzhou Industrial Park; (iv) the expected construction revenue for 2011 in relation to the construction of Yonghe Haitao Treatment Facility (Phase II) in July 2011 and the Huaihua Tianyuan Facility (Phase II) in July 2011, compared to the first half of 2011 where we did not have any profits from BOT construction since the planned construction of the facilities had not yet commenced; and (v) the expected commencement of heating services in the second half of 2011.
- (4) The calculations of pro forma forecast earnings per Share do not take into account any Shares which may be issued on the exercise of any options and which may be granted pursuant to the Share Option Scheme. The calculation of the forecast earnings per Share on a pro forma basis is based on the forecast consolidated profit attributable to equity holders of the Company for the year ending December 31, 2011 and assuming that the Global Offering was completed on January 1, 2011 and a total of 1,164,000,000 Shares were in issue throughout such year.

SUMMARY

GLOBAL OFFERING STATISTICS

We have prepared the following offer statistics on the basis of hypothetical Offer Prices without taking into account the 1% brokerage fee, 0.003% SFC transaction levy and 0.005% Stock Exchange trading fee. We have also assumed no exercise of the Over-allotment Option.

	<u>Based on Offer Price per Share of HK\$1.68</u>	<u>Based on Offer Price per Share of HK\$2.38</u>
Market capitalization of our Shares	HK\$1,955.5 million	HK\$2,770.3 million
Prospective price/earnings multiple:		
on a pro forma fully diluted basis.	9.9 times	14.0 times
Adjusted net tangible asset value per Share	HK\$0.51	HK\$0.66

The calculation of our market capitalization upon completion of the Global Offering is based on the assumption that 1,164,000,000 Shares will be in issue and outstanding immediately following the completion of the Global Offering. Our prospective price/earnings multiple on a pro forma fully diluted basis is based on the high- and low-end of the indicative Offer Price range and the estimated earnings per Share on a pro forma fully diluted basis as disclosed in “Summary — Profit Forecast for the Year Ending December 31, 2011” above, assuming completion of the Global Offering on January 1, 2011. The adjusted net tangible asset value per Share is calculated after the adjustments referred to in the section headed “Financial Information — Unaudited Pro Forma Adjusted Net Tangible Assets” in this prospectus and on the basis of a total of 1,164,000,000 Shares in issue immediately following the Global Offering.

DIVIDEND POLICY

Pursuant to the Companies Law and our Articles of Association, we, through a general meeting, may declare dividends in any currency but no dividend shall be declared in excess of the amount recommended by the Board. Our Articles of Association provide that dividends may be declared and paid out of our profit, realized or unrealized, or from any reserve set aside from profits which our Directors determine is no longer needed. With the sanction of an ordinary resolution dividends may also be declared and paid out of share premium account or any other fund or account which can be authorized for this purpose in accordance with the Companies Law.

Future dividend payments will also depend upon the availability of dividends received from our operating subsidiaries in China. PRC laws require that dividends be paid only out of the net profit calculated according to PRC accounting principles, which differ in many aspects from the generally accepted accounting principles in other jurisdictions, including HKFRS. PRC laws also require foreign investment enterprises to transfer at least 10% of their net profit (after offsetting prior year’s losses) to statutory reserves until the reserve balance reaches 50% of the registered capital of the enterprise. The transfer to their reserve must be made before distribution of dividends to their equity holders. Distributions from our PRC operating subsidiaries may also be restricted if they incur debts or due to PRC law restricting payments of dividend to us or losses or in accordance with any restrictive covenants in bank credit facilities, convertible bond instruments or other agreements that we or our PRC operating subsidiaries may enter into in the future. Pursuant to a loan agreement dated March 16,

SUMMARY

2010 entered into with ICBC, Guangzhou Haitao is currently restricted by certain covenants from making distributions to its shareholders that include restricting us as the borrower from paying dividends until the loan is fully repaid, and giving repayment priority to the bank loan over the debt owed by us to our shareholders. These restrictions may limit the funds available to pay dividends to our shareholders.

The amount of dividend actually distributed to equity holders of the Company will depend upon our earnings and financial condition, operating requirements, capital requirements and any other conditions that our Directors may deem relevant and will be subject to approval of our shareholders. Our Board has an absolute discretion to recommend any dividend for any year. There is no assurance that dividends of any amount will be declared or distributed in any year.

FUTURE PLANS AND USE OF PROCEEDS

The net proceeds of the Global Offering we expect to receive (after deduction of underwriting fees and estimated expenses payable by us in relation to the Global Offering and assuming that the Over-allotment Option is not exercised) are estimated to be approximately HK\$404.0 million, assuming an Offer Price of HK\$1.68 per Share, or HK\$582.7 million, assuming an Offer Price of HK\$2.38 per Share (or if the Over-allotment Option is exercised in full, HK\$431.1 million, assuming an Offer Price of HK\$1.68 per Share, or HK\$621.1 million, assuming an Offer Price of HK\$2.38 per Share). The Sale Shares will be sold by the Selling Shareholder and we will not receive any proceeds from the sale of the Sale Shares.

Assuming the Over-allotment Option is not exercised and assuming an Offer Price of HK\$2.03 per Offer Share, being the midpoint of the stated Offer Price range of HK\$1.68 to HK\$2.38 per Offer Share, the net proceeds of the Global Offering to us would be approximately HK\$493.4 million which we presently plan to use as follows:

- Approximately 53%, or approximately HK\$261.1 million, to be used for construction and operation of wastewater treatment and industrial water supply facilities;
- Approximately 15%, or approximately HK\$74.0 million, to be used for potential acquisitions relating to the wastewater treatment and industrial water supply industry. As of the Latest Practicable Date, we have not identified any targets nor entered into any letters of intent or agreements in relation to any potential acquisition;
- Approximately 12%, or approximately HK\$59.2 million, to be used in connection with our waste-to-energy project with Guangri Group;
- Approximately 10%, or approximately HK\$49.3 million, to be used for working capital and other general corporate purposes;
- Approximately 7%, or approximately HK\$35.0 million, to be used for repayment of existing borrowings; and
- Approximately 3%, or approximately HK\$14.8 million, to be used for improving our research and development capability and for expansion into third party sludge treatment business.

With respect to our existing bank borrowings, we had used certain of such proceeds for the construction of Yonghe Haitao Treatment Facility (Phase I), including the purchase cost of plant and machinery for such facility. Such loan proceeds were derived from the loan entered into by Guangzhou Haitao on March 16, 2010, with a loan duration of 15 years and an interest rate of 5.94% at inception. As of April 30, 2011, the outstanding loan amount of the Group was RMB270.4 million.

SUMMARY

The table below sets forth the estimated investment amount to be incurred and the IPO proceeds allocated to the construction and operation of our proposed Yonghe Haitao Treatment Facility (Phase II), Huaihua Tianyuan Treatment Facility (Phase II), Qingyuan Jingu Treatment Facility and Sichuan Guangyuan Industrial Park Treatment Facility (Phase I):

Project	Estimated investment amount to be incurred	IPO proceeds allocated
	HK\$ million	HK\$ million
Yonghe Haitao Treatment Facility (Phase II) ⁽¹⁾	118.7	61.0
Huaihua Tianyuan Treatment Facility (Phase II) ⁽¹⁾	53.4	39.0
Qingyuan Jingu Treatment Facility ⁽¹⁾	71.2	36.6
Sichuan Guangyuan Industrial Park Treatment Facility (Phase I) ⁽¹⁾	246.9	122.0
Overall contingency expenses ⁽¹⁾	0.7	2.5
	<u>490.9</u>	<u>261.1</u>

(1) As of the Latest Practicable Date, there has not been any actual investment made in these relevant projects.

Through the development of these additional facilities, we intend to continue expanding our operations and providing wastewater treatment services to customers located in areas beyond Guangdong province. The additional facilities will also allow us to continue expanding our service to customers in industries other than the textile and municipal industries. For instance, the development of our Huaihua Tianyuan Treatment Facility (Phase II) will expand our capacity to serve the pulp and paper-making industry as well as the food and beverage industry.

We estimate the Selling Shareholder will receive gross proceeds of approximately HK\$54.8 million, without deducting the underwriting commissions and fees payable by the Selling Shareholder in respect of the Sale Shares (assuming an Offer Price of HK\$2.03 per Offer Share, being the mid-point of our indicative Offer Price range) from the Global Offering, assuming the Over-allotment Option is not exercised.

The additional net proceeds that we will receive if the Over-allotment Option is exercised in full will be approximately HK\$32.7 million (assuming the Offer Price at the mid-point of the stated Offer Price range of HK\$2.03). If the Over-allotment Option is exercised in full, our Directors intend to apply all the additional net proceeds to increase our use of proceeds proportionately as earmarked.

If the Offer Price is fixed at HK\$2.38, being the high end of the stated Offer Price range, our net proceeds will be (i) increased by approximately HK\$89.4 million, assuming the Over-allotment Option is not exercised; and (ii) increased by approximately HK\$95.0 million, assuming the Over-allotment Option is exercised in full. Our Directors currently intend to use such additional proceeds to increase our use of proceeds proportionately as earmarked.

If the Offer Price is fixed at HK\$1.68, being the low end of the stated Offer Price range, our net proceeds will instead be (i) decreased by approximately HK\$89.4 million, assuming the Over-allotment Option is not exercised; and (ii) decreased by approximately HK\$95.0 million, assuming the Over-allotment Option is exercised in full. Our Directors currently intend to reduce our use of proceeds proportionately as earmarked.

To the extent that the net proceeds to us from the Global Offering are not immediately applied to the above purposes, we will deposit the net proceeds into short-term demand deposits and/or money market instruments.

SUMMARY

RISK FACTORS

Risks Relating to Our Business

- We may not be able to secure and execute new wastewater or industrial water supply projects
- Our plans to expand into new markets and industries may not be successful, which could materially and adversely affect our results of operations
- Our plans to expand the scope of our business to include sludge treatment, municipal waste-to-energy and heating services may not be successful and we may not be able to realize the anticipated benefits from such expansion
- If we fail to obtain or maintain the approvals, permits, licenses and certificates required for our operations, our business, financial condition and results of operations may be materially and adversely affected
- We rely substantially on the local governments for the development and operations of our BOT projects and the local governments may withdraw the concessions and terminate the agreements should we breach the terms of our agreements with them or fail to implement projects which fully satisfy their requirements or expectations
- The loss of any one or more of our significant customers could have a material adverse impact on our business, financial condition and results of operations
- Our customers may make claims against us and/or terminate our services in whole or in part prematurely should we fail to implement projects on time or fully satisfy their requirements and expectations
- We may require additional funding for our capital-intensive projects and our inability to borrow additional amounts or refinance our debt could adversely affect our results of operations and financial condition and prevent us from fulfilling our financial obligations and business objectives
- We are dependent on our key management team and technical specialists
- Our business relies heavily on technologies and techniques that are subject to continuous changes and we cannot assure you that our research and development initiatives will continue to enable us to remain competitive in the industries where we conduct business
- Unauthorized use of our technology or any claims or litigation that we may initiate in the future to protect our intellectual property rights may have material adverse impact on our business
- We may infringe on the intellectual property rights of others and may be unable to adequately safeguard our technology, and we may face claims that may be costly to resolve or limit our ability to use such technology in the future
- We depend on independent contractors and the loss of a significant contractor and/or a dispute with a contractor could have a material adverse effect on our results of operations
- Our projects are subject to construction and operational risks
- We are exposed to the credit risk of our customers
- We are dependent on third parties for the supply of equipment and raw materials
- Excessive pollution of the raw water or wastewater supplied to our treatment plants may adversely affect our earnings
- We may be adversely affected if there is any significant downtime of our wastewater treatment and industrial water supply plants

SUMMARY

- We are subject to risks associated with PRC regulations on lending and capital raising
- Our insurance coverage may not adequately cover the risks related to our business and operations
- We are dependent on third-party transportation providers for the supply and delivery of our equipment and raw materials, and an interruption or delay in deliveries, or an unexpected increase in costs, could adversely affect us
- We may not be able to adjust the prices charged for our services to fully reflect any increase in our actual cost
- Our inability to maintain our competitiveness could adversely affect our financial performance
- We may be unable to sustain our historical gross profit margins for our BOT projects involving municipal wastewater treatment services
- Inaccurate estimates in applying percentage-of-completion accounting for our BOT projects may result in a reduction of previously reported profits and have a significant impact on our period-to-period results of operations
- Failure to achieve the projected utilization of the facilities we operate may adversely affect our earnings
- The preferential tax treatment we currently enjoy may be unfavorably changed or discontinued
- We may not be able to obtain an adequate and timely supply of electricity at reasonable prices or at all
- We may fail to integrate future acquired businesses successfully into our existing operations
- We may be involved in legal and other proceedings arising out of our operations from time to time and may face significant liabilities as a result
- We have entered into a letter of intent for a proposed wastewater treatment facility, which may not be legally enforceable, and for which we may be unable to reach a final agreement
- We are subject to risks associated with our planned joint venture with Guangri Group

Risks Relating to the Industry

- We are subject to risks associated with changes in regulations for wastewater treatment and industrial water supply services that may require new technologies
- Our industry is subject to economic and market conditions in China and other countries
- We are subject to risks associated with changes in the current regulatory environment
- Failure to comply with environmental, labor, health and safety laws and regulations in the PRC in which we operate, may adversely affect our business, financial condition and results of operations
- Environmental risks may adversely affect our business, profitability, financial condition and results of operations

Risks Relating to Business Operations in the PRC

- PRC economic, political and social conditions, as well as governmental policies, could affect our business and prospects
- Uncertainty in the PRC legal system may make it difficult for us to predict the outcome of any disputes that we may be involved in

SUMMARY

- Changes in the PRC governmental rules and regulations will have a significant impact on our business
- Any future natural disasters, acts of God, outbreak of any several communicable diseases in China or any other epidemic may adversely affect our operational results
- Changes in government control of currency conversion and in PRC foreign exchange regulations may adversely affect our business operations
- Fluctuations in the value of Renminbi may adversely affect our business and the value of distributions by our PRC subsidiaries
- We may be deemed to be a PRC resident enterprise under the EIT Law and be subject to PRC tax on our worldwide income, which may significantly increase our income tax expenses and materially decrease our profitability or otherwise adversely affect the value of your investment
- Dividends payable by us to our foreign investors and gain on the sale of our Shares by our foreign investors may become subject to withholding income tax under PRC tax laws
- We rely principally on dividends paid by our subsidiaries to fund any cash and financing requirements we may have, and any limitation on the ability of our PRC subsidiaries to pay dividends to us could have a material adverse effect on our ability to conduct our business
- PRC regulations on direct investment and loans by offshore holding companies to PRC entities may delay or limit us from using the proceeds from the Global Offering to make additional contributions or loans to our PRC subsidiaries
- It may be difficult to effect service of process on our Directors or executive officers who reside in mainland China or to enforce against us or them in mainland China any judgments obtained from non-PRC courts
- The enforcement of the Labor Contract Law and other labor-related regulations in the PRC may adversely affect our business and profitability

Risks Relating to the Global Offering

- An active trading market in our Shares may not develop, which could have a material and adverse effect on our Share price and on your ability to sell your Shares
- The trading volume and market price of our Shares may be volatile, which could result in substantial losses for investors purchase our Shares in the Global Offering
- The Offer Price may not be indicative of prices that will prevail in the trading market
- You may experience immediate dilution and may experience further dilution if we issue additional Shares in the future
- Future offerings or sales of our Shares could adversely affect the prevailing market price of our Shares and result in dilution
- We may be unable to pay any dividend on our Shares
- The interests of our Controlling Shareholders may not be aligned with those of our other Shareholders
- We cannot guarantee the accuracy of facts, forecasts, other statistics and information derived from various official government publications or obtained from the Ernst & Young Report with respect to China, the PRC economy and the PRC wastewater treatment and industrial water supply services industry contained in this prospectus
- Investors should read this entire prospectus carefully and should not consider any particular statements in this prospectus or in published media reports without carefully considering the risks and other information contained in this prospectus

DEFINITIONS

In this prospectus, unless the context otherwise requires, the following terms shall have the meanings set out below. Certain other terms are explained in the section headed “Glossary of Technical Terms” in this prospectus.

“Application Form(s)”	WHITE application form(s), YELLOW application form(s) and GREEN application form(s), or where the context so requires, any of them that is used in connection with the Hong Kong Public Offering
“Articles of Association” or “Articles”	the articles of association of our Company, conditionally adopted on June 14, 2011 and as amended from time to time
“Board of Directors” or “Board”	our board of Directors
“Bright Sign”	Bright Sign Enterprises Limited (信光企業有限公司), a company incorporated in the BVI on October 12, 2010, a wholly owned subsidiary of our Company
“Business Day”	any day (other than a Saturday, Sunday or public holiday) on which banks in Hong Kong are generally open for business
“BVI”	British Virgin Islands
“CAGR”	compound annual growth rate
“Capitalization Issue”	the issue of Shares to be made upon capitalization of the share premium account of our Company as referred to in the section headed “Statutory and General Information — Further Information About Our Company and Our Subsidiaries — Resolutions in writing of the shareholders of our Company passed on June 14, 2011” in Appendix VI to this prospectus
“CBRC”	the China Banking Regulatory Commission (中國銀行業監督管理委員會)
“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 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 or a CCASS Custodian Participant or a CCASS Investor Participant

DEFINITIONS

“China” or “PRC”	the People’s Republic of China and, except where the context otherwise requires and only for the purpose of this prospectus, references in this prospectus to China or the PRC exclude Hong Kong, Macau and Taiwan
“Chinese Government” or “PRC Government”	the central government of the PRC, including all governmental subdivisions (including provincial, municipal and other regional or local government entities) and instrumentalities thereof or, where the context requires, any of them
“Citi,” “Sole Global Coordinator,” “Sole Sponsor,” “Sole Bookrunner,” or “Sole Lead Manager”	Citigroup Global Markets Asia Limited, which is licensed to conduct Type 1 (dealing in securities), Type 4 (advising on securities), Type 6 (advising on corporate finance) and Type 7 (providing automated trading services) regulated activities under the SFO
“Companies Law”	the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands
“Companies Ordinance”	the Companies Ordinance (Chapter 32 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
“Company,” “Group,” “our,” “us” and “we”	CT Environmental Group Limited (中滔環保集團有限公司), incorporated as an exempted company with limited liability in the Cayman Islands on November 30, 2010, and, unless the context otherwise requires, all of its subsidiaries, or where the context refers to any time prior to its incorporation, the business in which the predecessors of its present subsidiaries were engaged and which were subsequently assumed by such subsidiaries pursuant to the Reorganization
“Controlling Shareholders”	Mr. Tsui and Keen Vast, the controlling shareholders (as defined in the Listing Rules) of our Company
“CSRC”	China Securities Regulatory Commission (中國證券監督管理委員會), a regulatory body responsible for the supervision and regulation of the PRC national securities markets
“Deed of Non-competition”	a deed of non-competition dated June 14, 2011 given by each of the Controlling Shareholders in favor of our Company
“Director(s)”	the director(s) of our Company as of the date of this prospectus
“DTZ”	DTZ Debenham Tie Leung Limited, our independent property valuer

DEFINITIONS

“EIT Law”	the Enterprise Income Tax Law of the PRC (《中華人民共和國企業所得稅法》) approved during the Fifth Session of the 10th National People’s Congress that went into effect on January 1, 2008
“GDP”	gross domestic product (all references to GDP growth rates are to real as opposed to nominal rates of GDP growth)
“Global Offering”	the Hong Kong Public Offering and the International Offering
“Great Nation”	Great Nation Finance Limited, a company incorporated in the BVI on May 10, 2004, which is wholly owned by Mr. Lu Yili, our executive Director
“GREEN Application Form(s)”	the application form(s) to be completed by White Form eIPO Service Provider, Computershare Hong Kong Investor Services Limited
“Green Prosper”	Green Prosper Investments Limited, a company incorporated in the BVI on December 13, 2010, which is wholly owned by Mr. Li Sze Lim, an independent third party
“Guangri Group”	廣州廣日集團有限公司 (Guangzhou Guangri Group Co. Ltd.), an independent third party
“Guangzhou Kaizhou”	廣州凱洲自來水有限公司 (Guangzhou Kaizhou Water Supply Company Limited), a limited liability company established under the laws of the PRC on September 28, 2003, and a wholly owned subsidiary of Xi Zhou Enterprises
“Guangzhou Xintao”	廣州新滔水質淨化有限公司 (Guangzhou Xintao Wastewater Treatment Company Limited), a limited liability company established under the laws of the PRC on September 28, 2003, and a wholly owned subsidiary of Xi Zhou Enterprises
“Guangzhou Xinzhou”	廣州新洲環保工業園有限公司 (Guangzhou Xinzhou Environmental Protection Industrial Park Company Limited), a limited liability company established under the laws of the PRC on June 10, 2003, and a wholly owned subsidiary of Guangzhou Xintao
“Guangzhou Xinzhou Industrial Park”	Guangzhou Xinzhou Environmental Protection Industrial Park
“Guangzhou Xinzhou Industrial Park Treatment Facility”	Guangzhou Xinzhou Environmental Protection Industrial Park Treatment Facility, which consists of Guangzhou Xintao Wastewater Treatment Facility and Guangzhou Kaizhou Water Supply Facility

DEFINITIONS

“Guangzhou Haitao”	廣州海滔環保科技有限公司 (Guangzhou Haitao Environmental Protection Technology Company Limited), a limited liability company established under the laws of the PRC on November 9, 2009, and is owned as to 99% by Guangzhou Xintao
“Guangzhou To Kee”	廣州滔記實業發展集團有限公司 (Guangzhou To Kee Enterprises Development Group Limited), a limited liability company established under the laws of the PRC on August 26, 1993, is effectively owned by Mr. Tsui as to 89.45%, formerly 增城市新塘滔記實業發展集團有限公司 (Zengcheng Xintang To Kee Enterprises Development Group Limited)
“HK (IFRIC) 12”	Hong Kong (International Financial Reporting Interpretation Committee) 12 Service Concession Arrangements
“HK\$” or “HKD” or “Hong Kong dollars” or “HK dollars”	Hong Kong dollars, the lawful currency of Hong Kong
“HKFRS”	Hong Kong Financial Reporting Standards
“HKSCC”	Hong Kong Securities Clearing Company Limited
“HKSCC Nominees”	HKSCC Nominees Limited, a wholly owned subsidiary of HKSCC
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Hong Kong Share Registrar”	Computershare Hong Kong Investor Services Limited
“Hong Kong Offer Shares”	29,100,000 Offer Shares being initially offered by our Company pursuant to the Hong Kong Public Offering, subject to reallocation as described in the section headed “Structure of the Global Offering” in this prospectus
“Hong Kong Public Offering”	the offer for subscription or for sale of Offer Shares to the public in Hong Kong (subject to adjustment as described in the section headed “Structure of the Global Offering”) at the Offer Price (plus brokerage fee of 1%, SFC transaction levy of 0.003% and Stock Exchange trading fee of 0.005%) and on and subject to the terms and conditions described in this prospectus and the Application Forms, as further described in the section headed “Structure of the Global Offering” in this prospectus
“Hong Kong To Kee”	To Kee Holdings Limited (滔記集團有限公司), a company incorporated in Hong Kong on July 5, 2000, owned by Mr. Tsui as to 50%, and owned by Yuen Lai Wan, his spouse, as to 50%

DEFINITIONS

“Hong Kong Underwriter”	the underwriter of the Hong Kong Public Offering whose name is set out in the section headed “Underwriting — Hong Kong Underwriter” in this prospectus
“Hong Kong Underwriting Agreement”	the underwriting agreement dated June 23, 2011 relating to the Hong Kong Public Offering entered into among our Company, the Controlling Shareholders, the Sole Global Coordinator and the Hong Kong Underwriter
“Huaihua Tianyuan”	懷化天源污水處理投資有限公司 (Huaihua Tianyuan Wastewater Treatment Company Limited), a limited liability company established under the laws of the PRC on May 21, 2009, and is owned as to 75% by Guangzhou Xintao
“Huaihua Tianyuan Treatment Facility”	Huaihua Tianyuan Wastewater Treatment Facility
“ICBC”	Industrial and Commercial Bank of China
“independent third part(ies)”	a person(s) or company(ies) who/which is or are independent of and are not connected persons of the Company
“International Offer Shares”	261,900,000 Offer Shares, consisting of 234,900,000 newly issued Shares offered by our Company and 27,000,000 Sale Shares offered by the Selling Shareholder pursuant to the International Offering, together with any additional Shares offered pursuant to any exercise of the Over-allotment Option, subject to reallocation as described in the section headed “Structure of the Global Offering” in this prospectus
“International Offering”	the offer of International Offer Shares outside the United States to institutional and professional investors in offshore transactions as defined in and in accordance with Regulation S, and in the United States to QIBs in reliance on Rule 144A, as further described in the section headed “Structure of the Global Offering” in this prospectus
“International Underwriters”	the underwriters of the International Offering and parties to the International Underwriting Agreement as described in the section headed “Underwriting — The International Offering” in this prospectus
“International Underwriting Agreement”	the underwriting agreement relating to the International Offering, which is expected to be entered into among our Company, the Controlling Shareholders, the Selling Shareholder, the Sole Global Coordinator and the International Underwriters on or around the Price Determination Date
“ISO 9001”	an internationally recognized requirement for quality management system that is applicable to any business or organization

DEFINITIONS

“ISO 14001”	an internationally recognized standard for environmental management system that is applicable to any business or organization
“Keen Vast”	Keen Vast Holdings Limited (建大控股有限公司), a company incorporated in the BVI on October 15, 2010, our Controlling Shareholder and is owned as to 98% by Mr. Tsui
“KPMG”	KPMG, auditors and reporting accountants for the Company
“Latest Practicable Date”	June 17, 2011, being the latest practicable date prior to the printing of this prospectus for ascertaining certain information in this prospectus
“Listing”	the listing of the Shares on the Main Board of the Stock Exchange
“Listing Date”	the date, expected to be on or about July 8, 2011, on which the Shares are listed and from which dealings therein first commence on the Stock Exchange
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, as amended, supplemented or otherwise modified from time to time
“Longmen Xilin”	龍門縣西林水質淨化有限公司 (Longmen Xilin Wastewater Treatment Company Limited), a limited liability company established under the laws of the PRC on March 21, 2008, and a wholly owned subsidiary of Guangzhou Xintao
“Longmen Xilin Treatment Facility”	Longmen Xilin Wastewater Treatment Facility
“Main Board”	the stock exchange (excluding the option market) operated by the Stock Exchange which is independent from and operates in parallel with the Growth Enterprise Market of the Stock Exchange
“Memorandum” or “Memorandum of Association”	the memorandum of association of our Company, conditionally adopted on June 14, 2011, as supplemented, amended or otherwise modified from time to time
“Ministry of Construction”	the Ministry of Housing and Urban-Rural Development of the PRC (中華人民共和國住房和城鄉建設部), previously known as the Ministry of Construction
“Ministry of Environmental Protection” or “SEPA”	the Ministry of Environmental Protection of the PRC (中華人民共和國環境保護部), previously known as the PRC State Environmental Protection Administration (中華人民共和國國家環境保護總局)

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“Ministry of Finance” or “MOF”	the Ministry of Finance of the PRC (中華人民共和國財政部)
“Ministry of Land and Resources”	the Ministry of Land and Resources of the PRC (中華人民共和國國土資源部)
“MOFCOM”	the Ministry of Commerce of the PRC (中華人民共和國商務部)
“Mr. Tsui”	Tsui Cham To (徐湛滔), our chairman, an executive Director and a substantial shareholder of our Company
“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)
“NPC” or “National People’s Congress”	the National People’s Congress of the PRC (中華人民共和國全國人民代表大會) and its Standing Committee
“Offer Price”	the final price per Share in Hong Kong dollars (exclusive of brokerage of 1%, SFC transaction levy of 0.003% and the Stock Exchange trading fee of 0.005%) at which the Offer Shares are to be subscribed for and issued pursuant to the Global Offering, to be determined as further described in the section headed “Structure of the Global Offering — Pricing and Allocation” in this prospectus
“Offer Shares”	the Hong Kong Offer Shares and the International Offer Shares, together, where relevant, with any additional Shares issued pursuant to the Over-allotment Option
“Over-allotment Option”	the option granted by us and the Selling Shareholder to the International Underwriters exercisable by the Sole Global Coordinator pursuant to the International Underwriting Agreement, to be exercisable at any time from the date of the International Underwriting Agreement 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 up to 16,650,000 additional Offer Shares and the Selling Shareholder to sell an additional 27,000,000 Shares, being an aggregate of 43,650,000 additional Offer Shares, representing approximately 15% of the initial Offer Shares, at the Offer Price to cover, among other things, over-allocations in the International Offering, if any
“PBOC”	the People’s Bank of China (中國人民銀行), the central bank 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 December 29, 1993 and effective on July 1, 1994, as amended, supplemented or otherwise modified from time to time

DEFINITIONS

“Price Determination Date”	the date, expected to be on or around June 30, 2011 but no later than July 6, 2011, on which the Offer Price is to be fixed by agreement between our Company and the Sole Global Coordinator (on behalf of the Underwriters) for the purposes of the Global Offering
“property ownership certificate”	Property Ownership and Land Use Rights Certificate (房地產權證), a certificate issued by a local real estate and land resources bureau with respect to the land use rights and the ownership rights of the buildings on such land
“QIB”	a “qualified institutional buyer” within the meaning of Rule 144A
“R&D”	research and development
“Regulation S”	Regulation S under the U.S. Securities Act
“Reorganization”	the reorganization arrangements we have undergone in preparation for the listing of Shares on the Stock Exchange which are more particularly described in the sections headed “History and Reorganization” in this prospectus and “Statutory and General Information — Further Information About Our Company and Our Subsidiaries — Corporate reorganization” in Appendix VI to this prospectus
“RMB” or “Renminbi”	Renminbi, the lawful currency of the PRC
“Rule 144A”	Rule 144A under the U.S. Securities Act
“SAFE”	the State Administration of Foreign Exchange of the PRC (中華人民共和國國家外匯管理局)
“SAIC”	the State Administration for Industry and Commerce of the PRC (中華人民共和國國家工商行政管理總局)
“Sale Shares”	27,000,000 Shares initially offered by the Selling Shareholder in the International Offering, and an additional 27,000,000 Shares offered by the Selling Shareholder under the Over-allotment Option
“SAT”	the State Administration of Taxation of the PRC (中華人民共和國國家稅務總局)
“Selling Shareholder”	Yifeng Investments, the particulars of which are set out in “Appendix VI — Statutory and General Information — Other Information — Particulars of the Selling Shareholder”
“SFC”	the Securities and Futures Commission of Hong Kong

DEFINITIONS

“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
“Share Option Scheme”	the share option scheme our Company conditionally adopted on June 14, 2011, the principal terms of which are summarized in the section headed “Statutory and General Information — Other Information — Share Option Scheme” in Appendix VI to this prospectus
“Shareholders”	holders of Shares
“Shares”	ordinary shares in the share capital of our Company with a nominal value of HK\$0.10 each
“Sichuan Guangyuan Industrial Park Treatment Facility”	Sichuan Guangyuan Textile and Apparel Technology Industrial Park Treatment Facility, which consists of an industrial wastewater treatment plant and an industrial water supply plant
“Stabilizing Manager”	Citi or any of its affiliates
“State Council”	the State Council of the PRC (中華人民共和國國務院)
“State-owned Assets Supervision and Administration Commission” or “SASAC”	the State-owned Assets Supervision and Administrative Commission of the State Council (中華人民共和國國務院國有資產監督管理委員會)
“Stock Borrowing Agreement”	a stock borrowing agreement expected to be entered into between the Stabilizing Manager and Keen Vast
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Tian Tian”	Guangzhou Tian Tian Cleaning and Washing Company Limited (廣州天天快潔洗滌有限公司), a company incorporated in the PRC and owned as to 88.5% by Hong Kong To Kee
“Track Record Period”	the period comprising the three financial years ended December 31, 2010
“Underwriters”	the Hong Kong Underwriter and the International Underwriters
“Underwriting Agreements”	the Hong Kong Underwriting Agreement and the International Underwriting Agreement
“UNFCCC”	United Nations Framework Convention on Climate Change
“United States” or “U.S.”	the United States of America, its territories, possessions and all areas subject to its jurisdiction

DEFINITIONS

“United States or Canadian Person”	any national or resident of the United States or Canada, or any corporation, pension, profit-sharing or other trust or other entity organized under the laws of the United States or Canada or of any political subdivision thereof (other than a branch located outside the United States and Canada of any United States or Canadian Person), and shall include any United States or Canadian branch of a person who is otherwise not a United States or Canadian Person
“U.S. dollars” or “US\$”	United States dollars, the lawful currency of the United States
“U.S. Exchange Act”	the United States Securities Exchange Act of 1934, as amended, and the rules and regulations promulgated thereunder
“U.S. Securities Act”	United States Securities Act of 1933, as amended, and the rules and regulations promulgated thereunder
“White Form eIPO”	the application for Hong Kong Offer Shares to be issued in the applicant’s own name by submitting applications online through the designated website of www.eipo.com.hk
“White Form eIPO Service Provider”	Computershare Hong Kong Investor Services Limited
“Xi Zhou Enterprises”	Xi Zhou Enterprises Hong Kong Limited (西洲實業香港有限公司), a limited liability company established in Hong Kong on July 28, 1999, a wholly owned subsidiary of our Company
“Yifeng Investments”	Yifeng Investments Limited, a company incorporated in the BVI on December 9, 2010, which is wholly owned by Ms. Cheung Yee Man, an independent third party
“Yonghe Haitao Treatment Facility”	Yonghe Haitao Wastewater Treatment Facility

Unless expressly stated or the context otherwise requires, all data in this prospectus are as of the Latest Practicable Date.

In this prospectus, the terms “associate,” “connected person,” “connected transaction,” “subsidiary” and “substantial shareholder” shall have the meanings ascribed to them under the Listing Rules, unless the context otherwise requires.

Unless otherwise specified, all references to any shareholdings in our Company assume no exercise of the Over-allotment Option.

If there is any inconsistency between the official Chinese name of the PRC laws or regulations or the PRC Government authorities or the PRC entities mentioned in this prospectus and their English translation, the Chinese version shall prevail. English translations of official Chinese names are for identification purposes only.

GLOSSARY OF TECHNICAL TERMS

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

“aerobic”	an environment in which oxygen is present or a process which occurs only in the presence of oxygen
“anaerobic”	an environment in which oxygen is absent or a process which occurs only in the absence of oxygen
“BOO”	Build-Own-Operate, a project model in which an enterprise undertakes the financing, design, construction, operations and maintenance of wastewater treatment or water supply facilities which are owned by such enterprise
“BOT”	Build-Operate-Transfer, a project model in which the proprietor grants to a contracted enterprise the rights to undertake the financing, design, construction, operations and maintenance of wastewater treatment facilities by concession agreement, which enterprise can charge a fee during the concession period to cover its costs of investment, operations and maintenance as well as reasonable returns, and, upon expiration of the concession period, the relevant facilities will be transferred back to the proprietor
“BOD”	Biochemical Oxygen Demand, a test commonly used as an indication of the organic quality of water by determining the total amount of oxygen consumed by microorganisms during biodegradation
“COD”	Chemical Oxygen Demand, a test commonly used to indirectly measure the amount of organic compounds in water
“industrial water supply service”	use of chemical and biological processes to treat raw water and then supply the water for industrial use
“m ³ ”	cubic meter
“municipal wastewater treatment services”	services relating to the treatment of wastewater from domestic and other non-industrial sources
“reclamation of treated wastewater”	the use of wastewater that has been treated in the wastewater treatment process for the purpose of water conservation
“sedimentation”	settling of suspended solids in a fluid through the natural process of gravity
“wastewater”	water that has been used for domestic or industrial purposes which may contain organic and inorganic pollutants, bacteria, dissolved and/or suspended solids
“wastewater treatment”	use of chemical and biological processes to remove pollutants from wastewater before discharging it into a water body

FORWARD-LOOKING STATEMENTS

This prospectus contains forward-looking statements, including, without limitation, words and expressions such as “expect,” “believe,” “plan,” “intend,” “project,” “anticipate,” “seek,” “may,” “will,” “would,” and “could” or similar words or statements, in particular, in the sections headed “Risk Factors”, “Business” and “Financial Information” in this prospectus in relation to future events, our future financial, business or other performance and development, the future development of our industry and the future development of the general economy of our key markets.

These statements are based on numerous assumptions regarding our present and future business strategy and the environment in which we will operate in the future. The Directors confirm that the forward-looking statements are made after due and careful consideration. These forward-looking statements reflecting our current views with respect to future events are not a guarantee of future performance and are subject to certain risks, uncertainties and assumptions, including but not limited to the risk factors described in this prospectus, and the following:

- our business strategy and plan of operation and our ability to implement such strategies;
- our ability to further develop and manage our projects as planned;
- the amount and nature of, and potential for, future development of our business;
- our business prospects, including business expansion plans;
- various business opportunities that we may pursue;
- our dividend policy;
- the interpretation and implementation of the existing rules and regulations governing our industry;
- information regarding our imbedded value, including our financial condition and results of operations;
- availability and costs of bank loans and other forms of financing;
- our capital commitment and budget plans;
- the performance and future development of the wastewater treatment and industrial water supply services industry in China, particularly in the regions where we operate;
- the industry regulatory environment as well as the industry outlook generally;
- changes in political, economic, legal and social conditions in China, including specific policies of the PRC Government and the local authorities in the regions where we operate;
- changes in competitive conditions and our ability to compete under these conditions;
- the performance of the obligations of our existing and future partners and our overall relationship with them;
- interest rate fluctuations;
- exchange rate fluctuations and restrictions; and
- factors beyond our control such as catastrophic losses from accidents and natural disasters.

FORWARD-LOOKING STATEMENTS

We caution you that, subject to the requirements of applicable laws, rules and regulations, we do not have any obligation to update or otherwise revise the forward-looking statements in this prospectus, whether as a result of new information, future events or otherwise. As a result of these and other risks, uncertainties and assumptions, the forward-looking events and circumstances discussed in this prospectus might not occur in the way we expect, or at all. Accordingly, you should not place undue reliance on any forward-looking information. All forward-looking statements contained in this prospectus are qualified by reference to the cautionary statements set out in this section.

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

RISK FACTORS

You should carefully consider all of the information in this prospectus including the risks and uncertainties described below before making an investment in our Offer Shares. Our business, financial condition and results of operations could be materially and adversely affected by any of these risks and uncertainties. The trading price of our Offer Shares could decline due to any of these risks and uncertainties, and you may lose all or part of your investment. You should pay particular attention to the fact that we conduct our operations in the PRC, the legal and regulatory environment of which may differ in some respects from that which prevails in other countries. For more information concerning the PRC and certain related matters discussed below, please refer to the section headed "Regulations" in this prospectus.

RISKS RELATING TO OUR BUSINESS

We may not be able to secure and execute new wastewater or industrial water supply projects

Our turnover is generated from services provided to customers that are primarily manufacturers in the textile industry. During the years ended December 31, 2008, 2009 and 2010 and the three months ended March 31, 2011, turnover from our wastewater treatment and industrial water supply services provided to customers in the textile industry was HK\$76.8 million, HK\$117.5 million, HK\$189.9 million and HK\$54.9 million, respectively, which accounted for 100.0%, 93.5%, 84.9% and 79.8%, respectively, of our total turnover from the provision of wastewater treatment and industrial water supply services during the same periods. Our continued growth depends on our ability to secure and execute new wastewater treatment and industrial water supply projects, particularly BOO projects in association with the development of specialized industrial parks and BOT projects that provide industrial or municipal wastewater treatment services. Our ability to secure and execute such new projects in turn is dependent on a number of factors, many of which are beyond our control, including:

- global, national and local economic conditions;
- development of the industries in which our customers conduct business and these customers' businesses and their demand for wastewater treatment and industrial water supply services;
- policies and regulatory requirements in our target markets and industries, including environmental standards and the level and effectiveness of government promotions of environmental protection measures that affect our industry and the industries that we serve;
- development of industrial parks in the industries and markets that we are servicing or to which we plan to expand, including our ability to identify feasible projects and collaborate with the government in the development of these projects;
- competition in the PRC's wastewater treatment and industrial water supply services industry;
- availability and cost of suitable land, infrastructure, equipment and other raw materials necessary for the development and operations of treatment facilities; and
- availability and cost of financing.

If we fail to secure and execute new projects on terms and in a manner sufficient to support our anticipated growth, our business, results of operations, financial condition and prospects could be materially and adversely affected. In particular, we are currently in discussions with the local governments with respect to the design and planning of Phase II of Yonghe Haitao Treatment Facility and Sichuan Guangyuan Industrial Park Treatment Facility. We cannot assure you that we can secure these projects on favorable terms or at all. Furthermore, if we fail to successfully execute these projects, we may not be able to achieve the anticipated benefits.

RISK FACTORS

Our plans to expand into new markets and industries may not be successful, which could materially and adversely affect our results of operations

We anticipate a significant expansion of our business operations in tandem with the growth of the PRC economy over the next few years. Our expansion has placed and will continue to place, significant additional demands on our managerial, operational, technological and other resources. Our expansion growth will also depend on a number of factors beyond our control, including the macroeconomic policies of the PRC Government and the local governments, the level of competition in the wastewater treatment and industrial water supply services industry, changes in customer demand and prices of equipment, raw materials and components. In addition, we may be unfamiliar with local markets and local competitors may have a proximity advantage. If we fail to manage our expansion effectively and efficiently, we could suffer material and adverse effects on our operations and our ability to capitalize on new business opportunities in new markets and new industries, either of which could materially and adversely affect our operating results.

We intend to actively seek opportunities in central and western China, where the PRC Government promotes industry development. We expect that significant business opportunities exist for us in these regions to provide centralized wastewater treatment and industrial water supply services. However, we may encounter difficulties when expanding into such new markets. Our competitors in these new markets may have stronger financial resources, more established presence, stronger relationships with local governments and better understanding of customer requirements and preferences. As such, we may not be able to compete effectively.

We have historically focused on providing wastewater treatment and industrial water supply services to the textile industry. We have recently started to provide industrial wastewater treatment services to the pulp and paper-making industry as well as the food and beverage industry through our Huaihua Tianyuan Treatment Facility. We plan to further expand our wastewater treatment and industrial water supply services into other industries. However, we have no or minimal experience in providing wastewater treatment and industrial water supply services to customers in those industries. We intend to utilize our existing technologies to suit other industries. We may, however, be unable to adapt and apply these technologies to these other industries in a timely manner, at reasonable costs or at all. We also face competition from other wastewater treatment and industrial water supply services providers who may have more experience and established presence in servicing these industries.

Our plans to expand the scope of our business to include sludge treatment, municipal waste-to-energy and heating services may not be successful and we may not be able to realize the anticipated benefits from such expansion

We plan to expand the scope of our services to include sludge treatment, municipal waste-to-energy and heating services. However, we have no operational experience in providing sludge treatment services to third parties, operating a municipal waste-to-energy project or providing heating services. Currently, we only treat sludge that results from our wastewater treatment process and do not sell post-treated sludge products. We intend to apply for the Sludge Treatment Permit and upon receiving such a permit, we plan to provide sludge treatment services to licensed third parties and sell the post-treated sludge products to licensed third parties. Furthermore, we intend to continue to improve our sludge treatment technology, particularly the sludge drying process, and increase the capacity and efficiency of our sludge treatment process. The development of sludge treatment technology in China is currently at its early stages. If we are not successful in improving our sludge treatment technology, we may not be able to successfully provide sludge treatment services to our customers in a cost-effective and timely manner and the profitability of our sludge treatment services business will be materially and adversely affected. Furthermore, we may fail to obtain the Sludge Treatment Permit and may not be able to conduct the sludge treatment business.

RISK FACTORS

In addition, we intend to also provide heating services as a complementary business to our customers in Guangzhou Xinzhou Industrial Park. For more details, please refer to the section headed “Business — Heating Services.” We cannot assure you that we will be able to successfully provide such heating services.

In addition, we are expanding into the waste-to-energy business. On December 18, 2010, pursuant to a joint venture memorandum of understanding (the “MOU”) entered into between Guangzhou To Kee and Guangri Group, both parties agreed to jointly develop a municipal waste-to-energy project in Zengcheng city, Guangdong province. On January 5, 2011, Guangzhou Xintao entered into a separate agreement with Guangzhou To Kee, pursuant to which Guangzhou Xintao assumed all rights and obligations under the MOU from Guangzhou To Kee. Such transfer of rights and obligations did not involve any transfer fees or taxes and had been expressly acknowledged by Guangri Group. According to our PRC legal counsel, the MOU, as well as the abovementioned agreement entered into in relation to the waste-to-energy project, is legally binding and enforceable under the PRC Laws. Under the MOU, Guangri Group will be responsible to provide the technology and expertise required for this project. We are responsible for obtaining the relevant approvals and construction permits for the project, as well as handling land acquisitions and public relations matters in Zengcheng city, Guangdong province, while Guangri Group is responsible for obtaining the relevant approvals, construction permits and other related technical matters in Guangdong province and Guangzhou city. We have no operational experience or qualifications in providing such waste-to-energy services. We cannot assure you that the relevant approvals and construction permits for the waste-to-energy project can be obtained in a timely manner or at all.

If we fail to obtain or maintain the approvals, permits, licenses and certificates required for our operations, our business, financial condition and results of operations may be materially and adversely affected

We are required to obtain certain approvals, permits, licenses and certificates from various governmental authorities in order to develop and operate the wastewater treatment and industrial water supply facilities for our projects and conduct our complementary businesses. Some of these approvals, permits, licenses and certificates required for projects and properties for our project companies include the Land Use Rights Certificate, Construction Land Use Planning Permit, Construction Work Planning Permit, Construction Work Commencement Permit, Qualification Certificate for the Operation of Environmental Pollution Treatment Facilities (“Qualification Certificate”), the Pollutants Discharge Permit and the Water-Drawing Permit. We cannot assure you that all these required approvals, licenses, permits and certificates can be obtained in a timely manner or at all. If we develop and operate our facilities without the required approvals, permits, licenses and certificates, we may be subject to fines and penalties imposed by the relevant governmental authorities and may be required to suspend the use of such facilities or vacate the premises. In addition, some of these approvals, licenses, permits and certificates are subject to periodic review and renewal by the governmental authorities and the standards of compliance required in relation thereto may from time to time be subject to changes without substantial advance notice. Any changes in the existing policies by the governmental authorities in relation to the industries to which we provide our services 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, which would have a material adverse effect on our business and results of operations.

RISK FACTORS

On December 20, 2010, we obtained the Provisional Level A Qualification Certificate (臨時甲級環境污染治理設施運營資質證書), which is valid for one year and allows us to operate our wastewater treatment facilities and provide municipal wastewater and industrial wastewater treatment services, including waste leachate treatment services, nationally during this period. We had applied for the Provisional Level A Qualification Certificate after undertaking a review of the relevant legal and regulatory requirements as part of the preparation for our Listing application and upon the suggestion of the relevant provincial environmental protection authority for Guangzhou Xintao to first apply for the Provisional Level A Qualification Certificate. Prior to the expiration of the Provisional Level A Qualification Certificate, we intend to convert our Provisional Level A Qualification Certificate to a formal Level A Qualification Certificate, which will be valid for three years. Under the PRC laws, in order to convert the Provisional Level A Qualification Certificate to a formal Level A Qualification Certificate, the holder of the Provisional Level A Qualification Certificate is required to provide supporting documents showing the operation of pollution abatement facilities for 300 days or more, and the attainment of the requisite standard for discharge of pollutants. We cannot assure you that such formal qualification certificate can be obtained in a timely manner or at all. Our PRC legal counsel has also advised us that should we fail to obtain the formal Level A Qualification Certificate after the expiration of the Provisional Level A Qualification Certificate, we may be required to suspend operations of our facilities unless we were able to set up an entrustment arrangement with a third party in possession of a valid Qualification Certificate.

Prior to December 20, 2010, we had operated our wastewater treatment facilities without the Provisional Level A Qualification Certificate. At the time, we faced competition from other companies which we believe also did not possess the relevant Qualification Certificate. However, due to the evolving regulatory environment, the Directors are of the view that in light of the increasingly strict regulations of wastewater treatment services, it is presently unusual for wastewater treatment companies to operate without the relevant Qualification Certificate. As we started formal operations of some of our wastewater treatment facilities before receiving the Provisional Level A Qualification Certificate on December 20, 2010, we may be subject to a total fine not exceeding RMB120,000. Our PRC legal counsel has also advised us that we would not be subject to any forfeiture of profits earned prior to obtaining the Provisional Level A Qualification Certificate or any penalty other than the aforementioned fine.

We are required by relevant PRC regulations to obtain the Pollutants Discharge Permit for the operation of each of our wastewater treatment facilities. Prior to applying for and obtaining such permits, we are required to apply for the checking and acceptance of our facilities within three months, or under certain circumstances within a year, after the commencement of trial operation of the relevant treatment facilities and passing such checking and acceptance. Trial operations without the Pollutants Discharge Permits do not constitute non-compliance. According to our PRC legal counsel, there will be no legal impediment for us to obtain the Pollutants Discharge Permit for such facilities after they have passed checking and acceptance. Upon completion of the checking and acceptance of the facility by the relevant authority, we will apply for the relevant Pollutants Discharge Permit. If we do not initially pass the required checking and acceptance, we will be required to rectify the problem and improve our facilities according to the governmental specifications and recommendations until we pass such required checking and acceptance. In such event, during the process of making such improvement to our facilities, our operations may be subject to disruptions, which could materially and adversely affect our business and results of operations. We have obtained the Pollutants Discharge Permit for our Guangzhou Xinzhou Industrial Park Treatment Facility, Longmen Xilin Treatment Facility, Yonghe Haitao Treatment Facility (Phase I) and Huaihua Tianyuan Treatment Facility (Phase I). Details of our approvals, permits, licenses and certificates are set out in the sections headed “Regulations — Land Use Rights and Construction Land Planning Permit,” “Regulations — Water-Drawing Permit,” “Regulations — Environmental Protection” and “Regulations — Qualifications for the Operation of Environmental Pollution Treatment Facilities” of this prospectus.

RISK FACTORS

Our PRC legal counsel has advised that, as of the Latest Practicable Date, we had obtained all the material environmental licenses and certificates for each of our projects based on their respective stages of development. Except for the violation by Guangzhou Xintao of the wastewater discharge standard and illegal discharge of untreated wastewater in 2009 and the operation of wastewater treatment facilities without a Level A Qualification Certificate, our PRC legal counsel had advised us that during the Track Record Period and as of the Latest Practicable Date, we had complied in all material respects with the relevant environmental laws and regulations. Except for the fine of approximately RMB352,000 in relation to the violation by Guangzhou Xintao of wastewater discharge standard and illegal discharge of untreated wastewater in 2009, no other penalty or sanctions had been imposed on us by the PRC environmental authorities as of the Latest Practicable Date. However, if the PRC laws and regulations relating to environmental protection change in the future, we cannot assure you that we will be able to continue complying with such environment protection laws and regulations in the future. The Controlling Shareholders have agreed to indemnify us for all the losses and damages suffered by us as a result of us having failed to obtain or maintain, or if we fail to obtain or maintain any approvals, permits, licenses and certificates required for our operations.

We rely substantially on the local governments for the development and operations of our BOT projects and the local governments may withdraw the concessions and terminate the agreements should we breach the terms of our agreements with them or fail to implement projects which fully satisfy their requirements or expectations

The development and operations of our treatment facilities are subject to the terms of the contracts with the local governments. As the local governments generally have stronger bargaining power than us, the local governments may demand provisions that are not favorable to us or otherwise impose additional obligations on us in the contracts. For example, we may be required by the relevant agreement to provide a performance warranty to the local government for our BOT projects. The total amount may be refunded to us in installments according to the stage of completion of the project construction. However, if there is any delay in operation caused by us, the local government may deduct a penalty amount calculated per day of delay from the performance warranty as compensation for damages.

In some cases, the government may also withdraw the concession and terminate the agreement without compensation if we fail to complete the construction according to the specifications as prescribed in the agreement, or if the wastewater discharged fails to meet the discharging standards as stipulated in the agreement after having been given the opportunity to remedy the problem. For example, pursuant to the agreement for Longmen Xilin Treatment Facility, if we cannot complete the construction of Phase II of the project within 300 days and still fail to complete construction after a grace period of one year, the local government can withdraw the concession and terminate the agreement without compensation. During such grace period of one year, we shall pay to the local government a penalty for each day of such delay in an amount that is calculated as 1% of the fee that would be paid for treating 7,000 tonnes of wastewater per day. In addition, pursuant to this agreement, if we fail to meet the stipulated discharging standard, such as having a COD level higher than 40mg/L or a BOD level higher than 20mg/L, within six months of the trial operations period, we may request an extension of the trial operations period for another six months. If we still fail to meet the requisite discharging standards after such extension, the local government has the right to request us to re-design or re-construct the facility at our own cost, under which case we will be given another grace period of one year. If after such grace period, we still fail to meet the requisite discharging standard, the local government has the right to withdraw the concession.

RISK FACTORS

In addition, pursuant to the agreement for Huaihua Tianyuan Treatment Facility, the estimated trial operation is to be commenced within seven months from the date of the agreement and the estimated formal operation is to be commenced ten months from the date of the agreement. If either party causes a delay in the commencement of operations, the party in breach is required to pay to the non-breaching party a penalty in an amount of RMB5,000 per day for such delay. In addition, if we fail to meet the stipulated discharging standards, such as having a COD of over 60mg/L or a BOD level of over 20mg/L, we are required to repair or reconstruct the facility so that the wastewater can meet the discharging standards. We shall be responsible for all losses arising from any discontinued operations during such repair or reconstruction period. During the Track Record Period, we were not notified by any relevant government authorities of any failure to complete construction according to a stipulated timeline or to meet stipulated discharging standards for any of our BOT projects. However, we cannot assure you that the local governments will not withdraw the concessions or terminate our agreements in the future.

Pursuant to our concession agreements, we are typically required to carry out repairs before the concession period expires to ensure that the treatment facilities operate properly after the transfer. We cannot assure you that we will be able to successfully carry out such repairs to ensure that the treatment facilities operate properly after the transfer. In addition, for Huaihua Tianyuan Treatment Facility (Phase I), we are required to provide a warranty for a period of 12 months following the transfer and the local government could retain 30% of the wastewater treatment service fees received in the last two years of the concession. Should the treatment facilities fail to operate properly during the warranty period as a result of the quality of our facilities, we may not be able to recover the money retained by the local government.

In addition, for our Yonghe Haitao Treatment Facility (Phase I), we are currently providing wastewater treatment services to a third party other than to the local government. Although we have sought and obtained the government's consent before our provision of such services, we cannot guarantee that the government will not withdraw such consent in the future. We plan to enter into separate wastewater treatment services agreements with other third parties for Yonghe Haitao Treatment Facility (Phase II). However, we cannot assure you that we can receive such consent from the government in a timely manner or at all. In the event that the local government withdraws the concession for our BOT projects, our tariff payments received may not be sufficient to cover our investment cost and we may not be able to receive any compensation for the investment we have made, which could be material, and this could materially and adversely affect our business, financial condition and results of operations.

The loss of any one or more of our significant customers could have a material adverse impact on our business, financial condition and results of operations

For the years ended December 31, 2008, 2009 and 2010, turnover from our five largest customers amounted to HK\$33.7 million, HK\$50.5 million and HK\$186.3 million and in aggregate accounted for 41.3%, 36.7% and 51.5% of our total turnover, respectively, and turnover from our largest customer amounted to HK\$7.8 million, HK\$12.2 million and HK\$80.6 million and accounted for 9.6%, 8.9% and 22.3% of our total turnover, respectively. Our significant customers may cease or significantly reduce their use of our services due to declining demand for their products or services, financial difficulties, disruptions to operations due to restructuring events, incompliance with regulatory requirements or other reasons. If the operations of any one or more of our significant customers experience significantly reduced activities or temporary or prolonged suspensions, the amount of services we provide to them will decline and, accordingly, our turnover will be adversely affected due to the reduced service income and utilization of our capacity. Hence, the loss of any one or more of our significant customers that historically have individually accounted for a significant portion of our turnover could have a material adverse impact on our business and our results of operations.

RISK FACTORS

In particular, for our BOO projects, we rely on certain key customers mainly in the textile industry. As we mainly service manufacturing companies in designated industrial parks associated with these projects, our business depends heavily on the number of customers operating in these industrial parks and their production level, which correlates with the demand for our wastewater treatment and industrial water supply services. However, the number of customers operating in the industrial parks we service and their production level are influenced by various factors beyond our control, such as general economic conditions and demand for their products. Despite forward planning and discussion with the local governments, the development of the industrial parks may not turn out to be successful and they may fail to attract suitable manufacturers to achieve the occupancy level or economies of scale as anticipated. In the event that a customer in the industrial park ceases operations or moves out of the industrial park, our business may be disrupted if the vacancy in the relevant industrial park is not promptly filled by another suitable customer. It may be difficult to find a suitable replacement that can utilize the facilities of the previous occupant. The loss or interruptions in the business operations of our significant customers or a significant decrease in demand for our services from our significant customers would have a material adverse effect on our business, financial condition and results of operations.

Our customers may make claims against us and/or terminate our services in whole or in part prematurely should we fail to implement projects on time or fully satisfy their requirements and expectations

As of the Latest Practicable Date, we had a number of projects, such as our Sichuan Guangyuan Industrial Park Treatment Facility, Phase II of our Yonghe Haitao Treatment Facility and Phase II of our Huaihua Tianyuan Treatment Facility, under planning and construction. We cannot assure you that the development of our projects will not be delayed or that these projects will meet the requirements and expectations of our customers. Failure to implement or complete projects to the satisfaction of our customers or failure to comply with relevant governmental policies and standards, or defective systems may lead to claims against us and/or termination of our services in whole or in part prematurely. This may arise from unsatisfactory design or workmanship, staff turnover, human errors, untimely delivery of services, default by our subcontractors, misinterpretation of and failure to adhere to regulations and procedures. This may adversely affect our profits and reputation.

For our BOO projects, we cooperate with the local government on the development of the relevant industrial park, starting from the master-planning process, followed by design, construction and commencement of operation of our facilities. We further collaborate with the local government in attracting potential customers to join the industrial parks. Any delay in the project management process or delays in the general development of the industrial park (including the number of the customers in the industrial park and their production level) may adversely affect our results of operations. In the event that the contracts for any of our projects are terminated due to disputes with our customers, our reputation may be negatively affected which may adversely affect our ability to secure new projects. In addition, in the event we are found liable for delays or failure to complete projects to the satisfaction of our customers, we may be required to compensate our customers for their losses, which could be material amounts, and this could materially and adversely affect our business, financial condition and results of operations. We may not be able to receive any compensation for the investment we have made. Please refer to the section headed “Business — Key Contract Terms” for more information on termination of our contracts.

RISK FACTORS

We may require additional funding for our capital intensive projects and our inability to borrow additional amounts or refinance our debt could adversely affect our results of operations and financial condition and prevent us from fulfilling our financial obligations and business objectives

Our business and operations are capital intensive as we require a significant amount of capital to expand our operations as well as maintain and operate our wastewater treatment and industrial water supply plants. In particular, we require a considerable amount of capital to expand, acquire land use rights, construct wastewater treatment facilities for BOT projects and purchase property, plant and equipment to meet our business needs. During the years ended December 31, 2008, 2009, 2010 and the three months ended March 31, 2011, we incurred aggregate capital expenditures of approximately HK\$12.9 million, HK\$11.2 million, HK\$131.0 million and HK\$52.2 million, respectively. We expect to increase our capital expenditures to approximately HK\$449.3 million for the year ending December 31, 2011, as we seek to strengthen our market position in China by expanding our capacity and further adapting and applying our technologies to other industries.

Our projects typically require significant initial cash outlays. These projects require us to make substantial financial investments during the construction phase of the projects, which typically lasts approximately six to eight months. We are responsible for the costs of construction of the wastewater treatment or industrial water supply facilities, as well as the cost of operations, repairs and maintenance of the treatment facilities during the life of these facilities or with respect to the BOT projects, the respective concession periods. We are also responsible for the land acquisition costs for our BOO projects. We typically receive no payment from our customers before or during the construction phase when we make substantial capital investments. For example, we generally do not receive any payment during the construction phase of our BOT projects. After the construction is completed and commercial operations of the relevant facilities have commenced, we receive regular payments from our customers.

As of the Latest Practicable Date, we had one BOO project and two BOT projects under construction or planning. Our estimated remaining investment amount for these projects varies between RMB45.0 million and RMB208.0 million per project. We expect to continue to identify and develop new projects which will require significant investment. Pursuant to applicable regulations, we are required to fund at least 20% of total project investment amounts through internal resources. In practice, the percentage of funding from our own resources varies on a project-by-project basis and we intend to fund at least 30% of total project investment amounts from internal resources and therefore, we obtain up to 70% of the total project investment amount from external sources, such as bank borrowings.

Given that a substantial portion of our capital expenditures are incurred in advance of any actual cash payments, our success is heavily dependent on our ability to continue to secure and successfully manage sufficient amounts of working capital. These additional fundings for our business and operations may be raised by issuing equity or debt securities or by borrowing from banks or other resources. Our ability to obtain project financing is subject to a number of uncertainties, including, among other things:

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

RISK FACTORS

Moreover, certain land use rights, buildings and certain charge rights of wastewater treatment and water supply relating to some of our subsidiaries, are mortgaged or pledged in connection with our existing bank loans. If we fail to obtain additional financing on terms that are acceptable to us, we will not be able to implement such plans fully. Such financing, even if obtained, may be accompanied by conditions that limit our ability to pay dividends or require us to seek lenders' consent for payment of dividends or taking other corporate actions. Pursuant to a loan agreement dated March 16, 2010 entered into with ICBC, Guangzhou Haitao is currently restricted by certain covenants from making distributions to its shareholders that include restricting us as the borrower from paying dividends until the loan is fully repaid, and giving repayment priority to the bank loan over the debt owed by us to our shareholders. These restrictions may limit the funds available to pay dividends to our shareholders. Furthermore, in the event we raise additional funds by way of a limited placement or by a rights offering or through the issuance of new shares, shareholders who are unable or unwilling to participate in such an additional round of fund raising may suffer dilution in their investment. If adequate working capital is not available to us in a timely manner and on favorable terms or at all, we may not be able to develop or expand our business and, therefore, our business, financial condition and results of operations may be materially and adversely affected.

Our existing loan terms have amortization schedules of five to 15 years. We typically finance our projects with external financing from bank loans in addition to our own funds. Generally, project loans for our BOO projects are secured by the relevant project company's assets where such assets are to be pledged to the relevant banks. Further, these loans are secured by the charge rights of wastewater treatment under the relevant concession agreements during the respective concession periods. We cannot assure you that we will be able to roll over the loans for our projects in the amount we need or at the time we need upon the expiration of the current term of the loans. If we incorrectly forecast the amount of our internally generated funds, we may not have sufficient funds to finance the operating needs of our projects not met by the loans.

Any failure by us to properly perform our obligations in respect of these projects may lead to a reduction in our returns and may even lead to the loss of all or part of our initial capital investments. As a result, we may not be able to undertake or acquire new projects as we plan and our business, financial condition and results of operations may be materially and adversely affected.

In addition, PBOC regulates the lending rates and reserve requirement ratios for commercial banks in the PRC. PBOC raised the benchmark one-year lending rate several times between 2004 and 2008. PBOC increased the reserve requirement ratio for commercial banks several times between 2006 and 2008. The reserve requirement refers to the amount of funds that banks must hold in reserve with PBOC against deposits made by their customers. After the commencement of the global economic slowdown in the second half of 2008, the PRC government adopted measures intended to stimulate economic development, including lowering benchmark lending rates and the reserve requirement ratios for commercial banks. However, PBOC increased the benchmark one-year lending rate two times in 2010 and two times in 2011 and the reserve requirement ratios six times in 2010. The increases in the bank reserve requirement ratios may negatively impact the amount of funds available to commercial banks in China to lend to businesses, including us. The benchmark one-year lending rate is currently 6.31%, effective on April 6, 2011. The current reserve requirement ratio, which took effect on June 20, 2011, ranges from 18.0% to 21.5%. We cannot assure you that PBOC will not further raise lending rates or reserve requirement ratios in the future, or that our business, financial condition and results of operations would not be adversely affected as a result of these adjustments.

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We are dependent on our key management team and technical specialists

We attribute our success to the leadership and contributions of our management team. 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 will adversely affect our operations and hence, our turnover and profits.

Owing to the specialized nature of our work, there is a limited supply of adequately skilled technical specialists, including engineers. Our continued success and the implementation of our expansion plans depend largely on our ability to attract and retain skilled technical specialists. If we are unable to attract and retain a sufficient number of suitably skilled and qualified technical specialists, our financial condition and results of operations would be materially and adversely affected.

Our business relies heavily on technologies and techniques that are subject to continuous changes and we cannot assure you that our research and development initiatives will continue to enable us to remain competitive in the industries where we conduct business

Our continued success and competitiveness in the industries where we conduct business depend on our ability to develop and improve our technologies and techniques. These technologies and techniques are subject to continuous evolution and changes. We cannot assure you that we will be able to keep up with changes in technology and techniques in a timely manner or at a reasonable cost. If we are unable to continue developing our technologies and techniques or if there are fundamental technological changes in the industry to which we cannot adapt, we may not be able to remain competitive in our industries, and our business, results of operations and financial condition could be materially and adversely impacted.

Unauthorized use of our technology or any claims or litigation that we may initiate in the future to protect our intellectual property rights may have material adverse impact on our business

For our unpatented technologies, we currently rely on confidentiality pledges by our executive officers and research and development personnel to protect our intellectual property rights. If we fail to protect our intellectual property rights adequately, our competitors might gain access to our technology. Monitoring unauthorized use of our intellectual property is difficult, and we cannot be certain that the steps we have taken will prevent unauthorized use of our technology. Additionally, applicable laws may not fully protect our intellectual property rights. Any claims or litigation that we may initiate in the future to protect our intellectual property rights could be time consuming and expensive, diverting resources from our business regardless of whether or not the disputes are decided in our favor. Moreover, any significant infringement upon our technologies and techniques could weaken our competitive position, increase our operating costs and have an adverse effect on our operations.

We may infringe on the intellectual property rights of others and may be unable to adequately safeguard our technology, and we may face claims that may be costly to resolve or limit our ability to use such technology in the future

As we expand our business and increase our geographical coverage, third parties may assert that our technologies or techniques violate their intellectual property rights. Successful intellectual property claims against us could result in significant financial liability or prevent us from operating our business or parts of our business. In addition, resolution of claims may require us to redesign our technology, to obtain licenses to use intellectual property belonging to third parties, which we may not be able to obtain on reasonable terms, or at all, or to cease using the technology covered by those third

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party rights. Furthermore, if a third party successfully obtains intellectual property rights to an industrial know-how which we are using but is not protected by any intellectual property rights of our own, we may need to obtain licenses to use such know-how in the future. Any of these events could adversely affect our business, financial condition and results of operations.

In addition, one of our current employees, who had previously applied for the patent rights to the Solar Reclaimed-Water Hybrid-Heat Source Sludge Drying System technology during the course of his employment with us, had transferred the utility patent and the application rights to the invention patent to us pursuant to two respective patent transfer agreements entered into with us on December 31, 2010. The State Intellectual Property Office of the PRC subsequently approved both such transfers. According to our PRC legal counsel, such transfers do not violate any PRC laws or administrative regulations. However, we cannot assure you that such governmental registration approval can be obtained in a timely manner or at all. Please refer to the sections headed “Business — Our Treatment Process for Industrial Wastewater — Our Technologies” and “Business — Research and Development” of this prospectus for further information on our technology.

Furthermore, while we take care to ensure that we comply with the intellectual property rights of others, we cannot determine with certainty whether we are infringing upon any existing third-party intellectual property rights which may force us to alter our technologies, obtain additional licenses or cease significant portions of our operations. We may also be susceptible to claims from third parties asserting infringement and other related claims. Regardless of whether such claims that we or our technology providers are infringing patents or other intellectual property rights have any merit, those claims could adversely affect our relationships with current or future customers, result in costly litigation, cause product shipment delays or stoppages, divert management’s attention and resources, subject us to significant liabilities, require us to enter into additional royalty or licensing agreements or require us to cease certain activities.

An adverse ruling arising out of any intellectual property dispute could subject us to significant liability for damages, prevent us from using technologies or developing products, or require us to negotiate licenses to disputed rights from third parties. Although patent and intellectual property disputes in the technology area are often settled through licensing or similar arrangements, costs associated with these arrangements may be substantial and could include license fees and ongoing royalties, which could be prohibitively expensive. Furthermore, necessary licenses may not be available to us on satisfactory terms, if at all. Any of the foregoing could adversely affect our business, financial condition and results of operations.

We depend on independent contractors and the loss of a significant contractor and/or a dispute with a contractor could have a material adverse effect on our results of operations

We depend on the availability of skilled third party contractors for the development of our treatment facilities, including the construction of the facilities, the installation of treatment systems and equipment and the supply of certain key construction materials. We do not have any direct control over the timing or quality of services or supplies provided by these contractors. We cannot assure you that such skilled contractors will continue to be available at reasonable rates in the areas in which we conduct our operations, and we may be exposed to risks relating to the quality of their services and supplies. A contractor who has performed satisfactorily in one area may not be able to perform in the same manner in another area and hence identification of a good local contractor is essential, which may not be possible at all times.

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In addition, we require the continued support of certain equipment manufacturers to supply necessary services and parts to maintain our projects at affordable cost. If we are unable to procure the required services or parts from these manufacturers (for example, as a result of the shutting down of operations of the manufacturer, its bankruptcy), or if the cost of these services or parts exceed the budgeted cost, there may be an adverse effect on our business, financial condition and results of operations. We may not be able to recover from a contractor or supplier the full amount of losses that may be suffered by us.

Our projects are subject to construction and operational risks

Developing wastewater treatment and industrial water supply projects or conducting our complementary business involves various risks, including, among others, construction and operational risks. The construction and operation of our projects, including any new project that we undertake, could be adversely affected due to a number of factors, including:

- the contractors hired by us may not be able to complete the construction or installation work of our projects on time, within budget or to the specifications or standards we have set out in our contracts with them;
- shortages of, and price increases in, equipment, materials or skilled or unskilled labor;
- changes in laws and regulations, or in the interpretation or enforcement of laws or regulations, applicable to our projects;
- industrial accidents during construction or operations of our treatment facilities;
- weather interferences or delays, or fire, typhoons or other natural disasters;
- engineering, construction, regulatory and equipment problems (such as the malfunctioning of a valve of a maintenance pipe in 2009, which led to an inadvertent leakage of wastewater and a fine of approximately RMB 352,000);
- our raw material suppliers for our projects may not supply the same raw materials in the expected quantities/quality or at all;
- governmental or other statutory approvals or other approvals that are required for completion, expansion or operation of our projects may be delayed or denied;
- delays in completion or commercial operation could increase the financing costs associated with the construction;
- we may not be able to obtain adequate working capital or other financing for the construction or operations of our projects;
- we may not be able to accurately estimate the pollutants in the feed wastewater or industrial water supply; and
- other unanticipated circumstances or cost increases may occur.

We may not achieve the economic benefits expected from our projects and the failure to obtain the expected economic benefits could adversely affect our business, financial condition and results of operations. We cannot assure you that our current or future projects will be completed, or, if completed, that they would be completed on time or within the budget.

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We are exposed to the credit risk of our customers

We are subject to the credit risks of our customers and our profitability is dependent on on-time payments from our customers for services we provide to them. Trade receivables turnover days for 2008, 2009, 2010 and the three months ended March 31, 2011 were 32.7 days, 44.2 days, 54.2 days and 57.2 days, respectively. For customers, including local governments, involving payment for treatment of industrial wastewater and industrial water supply as well as municipal wastewater, we generally grant a credit period ranging from 10 to 30 days. We cannot assure you that we will be able to collect all or any part of our trade receivables within the credit terms granted by us, or at all. In addition, if any of our customers were to go into liquidation or bankruptcy, we might not be able to receive full or any payment of uncollected sums due to us or enforce any judgment debts on such customers. Global economic downturns may cause customer defaults to increase and we may need to make greater provisions for receivables, particularly for receivables from our industrial customers who may be more significantly impacted by the downturn. Non-payment or delay in payments by our customers could materially and adversely affect our business, financial condition and results of operations. Please refer to the section headed “Financial Information — Market Risks — Credit Risk” of this prospectus for further details.

We are dependent on third parties for the supply of equipment and raw materials

Our business is significantly affected by the availability, cost and quality of the equipment and raw materials, which we need in order to construct, develop, operate and maintain our treatment facilities. For further details, please refer to the section headed “Business — Raw Materials and Equipment” and “Business — Suppliers” in this prospectus. The prices and supply of equipment and raw materials depend on factors beyond our control, including economic conditions, competition, availability of quality suppliers, production levels and transportation costs in the PRC.

Although we may enter into contracts with our suppliers and provide for price contingencies in our contracts to limit our exposure, if, for any reason, our primary suppliers of equipment and raw materials should curtail or discontinue their delivery of such materials to us in the quantities we need, provide us with equipment and raw materials that do not meet our specifications, or at prices that are not competitive or not expected by us, our ability to meet our material requirements for our projects could be impaired, our construction schedules and operations could be disrupted and our business and results of operations could suffer.

We currently source our suppliers locally. In the event that our suppliers cease to be able to supply us or that they relocate to a new region, we may need to find new reliable local suppliers and we cannot assure you that we will be able to locate a replacement in a timely manner or at all. Failure to find a suitable replacement could jeopardize or cause a delay in the delivery of our supplies, which could materially and adversely affect our business and results of operations. For the years ended December 31, 2008, 2009 and 2010, purchases of raw materials from our five largest raw material suppliers amounted to HK\$11.4 million, HK\$15.7 million and HK\$29.6 million and in aggregate accounted for 88.2%, 89.4% and 90.2% of the total cost of raw materials, respectively. For the years ended December 31, 2008, 2009 and 2010, the purchase of raw materials from our largest supplier amounted to HK\$6.6 million, HK\$7.5 million and HK\$16.3 million and accounted for 51.3%, 42.6% and 49.6%, respectively, of our total cost of raw materials. If any of our key suppliers for a particular project is unable to continue providing the raw materials or buying items we need, at prices and on terms and conditions we consider acceptable, we may need to obtain these items from other suppliers and our business and results of operations could suffer as a result.

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Excessive pollution of the raw water or wastewater supplied to our treatment plants may adversely affect our earnings

Our wastewater treatment and industrial water supply facilities are built to treat raw water or wastewater that fall within certain water quality specifications. For example, in the event that the COD level — which is one measure of water pollution — is higher than the specifications of our treatment facilities, and depending on the extent of such deviation, it may not be possible for the raw water or wastewater supply to be treated, or to be treated to attain the water quality standards provided under our agreements with our customers, within the cost structure contemplated by such agreements, or to meet governmental requirements. For example, the raw water could be polluted by contaminants, and the wastewater may contain pollutants beyond the types and quantity as contemplated, due to industrial accidents, excessive discharge, oil spills, or other events. An excessive pollution of the water or wastewater supply to our treatment plants may adversely affect the operating costs and earnings of such plants due to the higher costs of treating the water or wastewater to attain the quality standard specified in the agreements with the local government or our customers or due to lower turnover from a reduction in water output. Any failure to meet the applicable governmental standards may subject us to governmental sanctions. Such excessive pollution could also damage our wastewater treatment and industrial water supply facilities.

We may be adversely affected if there is any significant downtime of our wastewater treatment and industrial water supply plants

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

We are subject to risks associated with PRC regulations on lending and capital raising

The General Principles of Loans (貸款通則), promulgated by the PBOC in 1996, prohibits lending and capital raising among non-financial institutions and the PBOC could impose a fine on such institutions of up to five times the amount of their gains from such lending. The transaction among Guangzhou To Kee, Guangzhou Xintao and Guangzhou Kaizhou during the Track Record Period was not a loan transaction, but an arrangement entered into for the purposes of replacing an existing bank facility (置換貸款). Guangzhou To Kee had originally borrowed RMB290.0 million from a bank to obtain funds to develop and construct Guangzhou Xinzhou Industrial Park including but not limited to the development of Guangzhou Xintao Treatment Facility and Guangzhou Kaizhou Industrial Water Supply Facility, land acquisition for Guangzhou Xinzhou Industrial Park and infrastructure development of Guangzhou Xinzhou Industrial Park, of which an amount of RMB250.0 million was outstanding as of December 2008. Subsequently, Guangzhou Xintao and Guangzhou Kaizhou obtained borrowings of an amount of RMB250.0 million from the same bank to replace the outstanding borrowings in full made by Guangzhou To Kee. According to the bank's regulations, the replacement must be made in full and not in part. However, because the entire loan amount of RMB250.0 million

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was not solely used for the development and construction of Guangzhou Xinzhou Industrial Park, which costs Guangzhou To Kee RMB120.0 million, the difference of RMB130.0 million became in effect an amount due from Guangzhou To Kee to Guangzhou Xintao and Guangzhou Kaizhou. As described above, Guangzhou Xintao and Guangzhou Kaizhou were required by the bank's regulations to replace the bank loans in full made by Guangzhou To Kee. Guangzhou To Kee did not repay such outstanding amount to Guangzhou Xintao and Guangzhou Kaizhou during the Track Record Period. As Guangzhou Xintao and Guangzhou Kaizhou had to pay interest on the entire loan amount, including the amount charged on the amount due from Guangzhou To Kee, pursuant to the agreement among Guangzhou To Kee, Guangzhou Xintao and Guangzhou Kaizhou, Guangzhou To Kee paid a compensatory amount to Guangzhou Xintao and Guangzhou Kaizhou for the delay in such repayment of the outstanding amount during the Track Record Period. Such compensatory amount was calculated based on a rate similar to the relevant bank loan interest rate. Accordingly, the outstanding amount due from Guangzhou To Kee was not a loan to Guangzhou To Kee by Guangzhou Xintao and Guangzhou Kaizhou and the compensatory amount paid by Guangzhou To Kee to Guangzhou Xintao and Guangzhou Kaizhou during the Track Record Period was not an interest, but instead a compensatory fee imposed on Guangzhou To Kee for late repayment of such outstanding amount due. Our PRC legal counsel is of the opinion that the outstanding amount due from Guangzhou To Kee, including the finance income in connection with such amount due during the Track Record Period was in compliance with the PRC laws because such amount was not a loan to Guangzhou To Kee and no interest was payable by Guangzhou To Kee on such outstanding amount. As such, the transaction with Guangzhou To Kee would not be subject to penalties under the General Principles of Loans. However, in the event that the PBOC interprets the General Principles of Loans differently or takes a different view such that any of our advances to related parties become subject to penalties, our results of operations may be adversely affected. In the event a fine or any other penalties are imposed on us as a result of our lending transactions to any of our affiliates, the Controlling Shareholders have agreed to indemnify us for all the losses and damages suffered by us as a result.

Our insurance coverage may not adequately cover the risks related to 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. For BOO projects we maintain employee group insurance and commercial insurance with China Pacific Property Insurance Co., Ltd. for claims of property damage arising from accidents on our property or relating to our operations or services. 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 and our business may be adversely impacted, potentially leading to a loss of assets, lawsuits, employee compensation obligations or other forms of economic loss. We do not maintain property insurance for the raw materials used in our operations.

As advised by our PRC legal counsel, we are not obliged to take out insurance on the projects under PRC law. We do not maintain insurance for our projects. 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 cannot obtain certain types of insurance at a reasonable cost or at all. For example, insurance covering losses from acts of war, terrorism or natural catastrophe is either unavailable or cost prohibitive. We cannot assure you that our insurance policies are sufficient to cover all risks associated with our business and operations. Losses incurred for liabilities not sufficiently covered by our insurance policies may have a material and adverse effect on our business, financial condition and results of operations.

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We are dependent on third-party transportation providers for the supply and delivery of our equipment and raw materials, and an interruption or delay in deliveries, or an unexpected increase in costs, could adversely affect us

The success of our operations depends on the timely delivery to us of our equipment and raw materials, which depends, in turn, on effective transportation services. Third-party transportation providers are typically used for the supply of our equipment and raw materials. Transportation costs have been steadily increasing and continuing increases in transportation costs may have an adverse effect on our business and results of operations. Moreover, many of our raw materials are chemicals that require special care and transportation services for such raw materials may not be available at reasonable costs or at all. We cannot assure you that events beyond our control will not disrupt the supply of our equipment and raw materials. Any disruptions could have a material adverse effect on our business, financial condition and results of operations.

We may not be able to adjust the prices charged for our services to fully reflect any increase in our actual costs

For projects involving municipal wastewater treatment services and certain of our BOT projects involving industrial wastewater treatment services, we operate and maintain existing wastewater treatment facilities in exchange for a monthly fee, which is calculated based on treatment volume, from the local government with respect to municipal wastewater treatment and from other customers with respect to industrial wastewater treatment. The fee we receive for the provision of treatment services under our BOT contracts typically includes a guaranteed tariff based on a guaranteed minimum treatment volume together with an additional tariff for wastewater treated in excess of the minimum volume. Such tariff rates are pre-determined at the time we enter into the project agreement with the local government. The tariffs for such BOT projects are generally linked to certain local benchmark prices or key cost indices such as the consumer price index, labor costs and utilities charges. Adjustments to tariffs are generally subject to regulation by various government authorities. Any adjustments agreed to with the local government, may or may not be timely or sufficient to offset such increases. For our BOT projects, the concession agreements contain provisions specifying the circumstances when the parties can adjust the tariffs, generally by reference to inflation and/or changes in benchmark interest rate on loans or utilities charges. In addition, the concession agreement for Huaihua Tianyuan Treatment Facility (Phase I) entitles the parties in principle to adjust the tariffs on a regular basis every two to three years. The tariff adjustments are subject to the government's consent. It is estimated that we will obtain the government's consent within one to two months. During the Track Record Period, we had not adjusted tariffs for our BOT projects as the projects have relatively short operating history. We cannot assure you that the relevant government authorities will approve our applications to increase the tariffs. We also cannot assure you that the relevant government authorities will not reduce the tariffs correspondingly should the relevant benchmark prices or key cost indices decrease. Furthermore, even if the PRC Government agrees to an adjustment to the tariff, we cannot assure you that such adjustment will fully reflect any increase in our actual costs. If we incur significantly higher operating costs without a corresponding increase in the tariffs or in the event of a reduction in tariffs, we may not be able to sustain our profitability or we may even incur a loss, and our financial condition and results of operations may be materially and adversely affected.

Our BOO projects are generally not subject to fixed tariffs, and thus we have greater flexibility in formulating our pricing policy and have more latitude in passing increased costs to our customers. For these projects, the relevant local government usually recommends a maximum price for our wastewater treatment or industrial water supply services, taking into account several factors such as, among others, labor costs, utilities charges, other operating costs, market conditions and project investment. The recommended maximum price serves as a guide and is subject to further negotiation with the customers. If we wish to increase our prices beyond the recommended maximum price set by

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the local government, we can apply to the relevant governmental authority and provide supporting documentation justifying such increase in the recommended maximum prices. The application to increase the recommended maximum tariff will generally take approximately one month. Under the contracts with our customers at Guangzhou Xinzhou Industrial Park Treatment Facility, we usually are entitled to adjust the prices according to market conditions and national policies and regulations. During the Track Record Period, we regularly reviewed and had adjusted the prices for various types of wastewater in accordance with the prevailing conditions of the industrial park taking into account, amongst others, the changes in operating costs. According to our PRC legal counsel, we have the ability to increase the prices for such projects in the future and even if our increased tariffs exceed the range set forth in the voluntary pricing guideline, we will not be subject to any form of penalty by the local government. However, as a practical matter, in the event that we increase our prices in the future beyond the pricing guideline, we may not be able to successfully negotiate agreements with our customers for such projects.

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

The wastewater treatment and industrial water supply services industry in China is highly fragmented and competitive, with a large number of service providers throughout the country. We compete primarily with private wastewater treatment and industrial water supply companies in the PRC and new entrants to the market, some of which may have a lower cost structure than us due to lower capital expenditures or lower labor costs. In addition, other companies, such as foreign wastewater treatment and industrial water supply companies, may try to enter the BOO project market or otherwise compete with us in providing centralized wastewater treatment and industrial water supply services. We cannot assure you that we will be able to compete successfully in our existing markets or in the new markets where we are expanding. Failure to maintain our competitiveness and any increase in competition may materially and adversely affect our business, financial condition and results of operations. Please refer to the section headed “Business — Competition” of this prospectus for more information about our major competitors.

We may be unable to sustain our historical gross profit margins for our BOT projects involving municipal wastewater treatment services

In general, gross profit margin for industrial wastewater treatment services is higher than that for municipal wastewater treatment services, according to the Ernst & Young Report. For the years ended December 31, 2008, 2009 and 2010 and the three months ended March 31, 2011, most of our BOT projects involving municipal wastewater treatment services had an average gross profit margin that was comparable to that of our BOO projects involving industrial wastewater and water supply services for the same periods. The relatively high gross profit margin of our BOT projects involving municipal wastewater treatment services during the Track Record Period was primarily attributable to a lower level of pollutants in the wastewater discharged and minimum guaranteed tariffs that we received. For more details, please refer to the section headed “Financial Information — Description of Selected Income Statement Line Items — Gross margin and gross profit margin.” Our ability to sustain our profit margin for our BOT projects involving municipal wastewater treatment services depends on a number of factors, including the level of pollutants in the wastewater discharged, the volume of wastewater treated and changes in the operating costs of our services. A number of these factors are beyond our control. We cannot assure you that we will be able to sustain our historical levels of gross profit margins for our BOT projects involving municipal wastewater treatment services in the future.

Inaccurate estimates in applying percentage-of-completion accounting for our BOT projects may result in a reduction of previously reported profits and have a significant impact on our period-to-period results of operations

We use the percentage-of-completion method to recognize and account for the turnover derived from our construction contracts in progress for our BOT projects. We used an independent property

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valuer, DTZ, to value the construction services during the Track Record Period that form a basis for us to estimate the total turnover for the construction phase. During the Track Record Period, in determining the percentage of completion for each relevant reporting period, we used the actual construction cost incurred during the period over the total actual construction cost during the entire construction phase. Going forward, we need to estimate the amount of construction costs based on our assessment of, among other things, the market conditions and the costs of raw materials and equipment and other operating costs. The timing of our recognition of turnover may differ materially from the timing of our actual receipt of contract payments. The timing of our recognition of turnover and the amount of turnover recognized are affected by our ability to reliably measure the percentage of completion, total estimated costs and actual costs incurred. Inaccuracies or flaws in our measurements for any given project or in our estimation methodology as a whole could have a material and adverse effect on the timing of our recognition of turnover and the amount of turnover recognized. Where our expectation related to turnover recognition is different from our previous estimation, the differences will be charged to our profit or loss account in the period when such estimate has been changed. In addition, because many of these contracts are completed over a period of several months or years, the timing of our recognition of the related turnover may adversely affect our results of operations.

Failure to achieve the projected utilization of the facilities we operate may adversely affect our earnings

Each of our projects has been or will be built to a specified designed capacity in accordance with the terms of the relevant agreement with the local government. The utilization rate of our treatment facilities depends on a number of factors including the size of the population, the types of industries of our customers, the general economic conditions and the level of industrialization in the area serviced by the relevant facilities. We cannot assure you that the facilities we operate will be able to achieve the forecast utilization of their design capacity, which may adversely affect our results of operations. If the facilities we operate are not utilized to their designed capacity, we may not generate the turnover and profit we had expected from the relevant projects, which could have a material and adverse effect on our business, financial condition and results of operations.

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

Pursuant to the Foreign Investment Enterprises and Foreign Enterprises Income Tax Law (《外商投資企業和外國企業所得稅法》), our wholly foreign-invested subsidiaries, Guangzhou Xintao and Guangzhou Kaizhou, enjoyed full exemption from the statutory national income tax for 2008 and 2009, and enjoy a 50% reduction in income tax for the three years subsequent to 2009. Without any further tax exemptions or reductions, such subsidiaries will be subject to the uniform enterprise income tax rate of 25% from 2013 onwards. The termination of the preferential tax treatment during the above period or the imposition of additional taxes on us or our subsidiaries in China may significantly increase our income tax expense and materially reduce our net income.

According to the Notice of Ministry of Finance and State Taxation Administration on Value Added Tax Policy of Comprehensive Utilization of Resources and Other Products (《財政部、國家稅務總局關於資源綜合利用及其他產品增值稅政策的通知》) promulgated by the Ministry of Finance and the State Administration of Taxation on December 9, 2008, the state exempts the wastewater treatment services from value added tax from January 1, 2009 on condition that the water released after the wastewater treatment process satisfies the water quality standard set out in the Discharge Standard of Pollutants for Municipal Wastewater Treatment Plant (GB18918-2002). Currently, pursuant to the “Ministry of Finance, the State Administration of Taxation on Comprehensive Utilization of Resources and Other Products Value-Added Tax Policy Notice” (《財政部、國家稅務總

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局關於資源綜合利用及其他產品增值稅政策的通知》), Guangzhou Haitao, Longmen Xilin, Guangzhou Xintao and Huaihua Tianyuan are exempt from paying PRC value-added tax on the provision of their respective wastewater treatment services. We cannot assure you that such exemption that we currently enjoy will not be cancelled.

In addition, in order to encourage the construction of environmental protection projects, entities carrying out environmental protection projects, or energy and water saving projects, which meet relevant requirements are entitled to an exemption from PRC enterprise income tax on the income earned from such projects for the three years commencing from the first income-making year of operations, and thereafter, are entitled to a 50% reduction in PRC enterprise income tax for the next three years in respect of such income. Currently, pursuant to Article 88 of the PRC Enterprises Income Tax Law Implementation Regulations (《中華人民共和國企業所得稅法實施條例》), the income derived from our Longmen Xilin Treatment Facility, Yonghe Haitao Treatment Facility and Huaihua Tianyuan Treatment Facility are exempted from enterprise income tax for three years commencing from the first revenue-generating year of operations and thereafter, entitled to a 50% reduction from enterprise income tax for the next three years. We cannot assure you that the current policies in the PRC with respect to the preferential tax treatment we currently enjoy will not be unfavorably changed or discontinued, or that the approval for renewal of such preferential tax treatment will be granted to our PRC project companies in a timely manner, or at all.

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

Operation of our wastewater treatment and industrial water supply facilities and conducting our complementary business depend, among other things, on the adequate and timely supply of electricity. Our operations require a significant and stable supply of electricity, the use of which will further increase substantially as we expand our capacity. We currently obtain most of our electricity from the public electricity network. Many cities and provinces in China have suffered serious power shortages in recent years. Many of the regional grids do not have sufficient power-generating capacity to fully satisfy the increased demand for electricity driven by continued electric growth and persistent hot weather. To date, our operations in the PRC have not been materially affected by power supply shortages, and we maintain several standby generators to keep our key operations running in case of a power outage. However, we cannot assure you that we will always have access to sufficient supplies of electricity in the future to accommodate our requirements and planned business growth and that such power shortages will not cause disruptions and delays in our operation schedules in the future. If this were to occur, our business, financial condition, results of operations and prospects could be materially and adversely affected.

We may fail to integrate future acquired businesses successfully into our existing operations

As part of our expansion strategy, we intend to enhance our market position by increasing our business volume through the acquisition of companies with in-house R&D capabilities which complement our existing business operations. The implementation of such expansion strategy is subject to a number of risks, including:

- the failure to integrate the acquired business and its personnel into our existing business;
- higher costs of integration than we may anticipate;
- any delay or failure in realizing the expected benefits of the acquired business or its products or services;
- difficulties in obtaining regulatory approvals;
- changes in market circumstances and demands; and

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- diversion of our management's time and attention from other business concerns.

Our ability to grow through acquisitions further depends upon our ability to identify, negotiate and complete suitable acquisitions, to adequately integrate the businesses we acquire and to obtain any necessary financing for such acquisitions. We cannot assure you that we will be able to implement our strategy successfully or that we will be able to make acquisitions or investments on favorable terms or within a desired time frame. Even if we are able to successfully acquire suitable businesses or make such investments, We cannot assure you that we will achieve our expected returns on such acquisitions or investments. If we fail to successfully integrate any acquired businesses into our existing operations, our business, financial condition and results of operations may be materially and adversely affected.

We may be involved in legal and other proceedings arising out of our operations from time to time and may face significant liabilities as a result

We may be involved in disputes with various parties involved in our provision of wastewater treatment and industrial water supply services, including the local governments, suppliers, customers and contractors. These disputes may lead to legal or other proceedings and may result in substantial costs, delays in our development and operation schedule, and the diversion of resources and management's attention, regardless of the outcome. In addition, labor disputes at our treatment facilities could significantly disrupt our operations or our expansion plans. We may also have disagreements with regulatory bodies in the course of our operations, which may subject us to administrative proceedings and unfavorable decisions that result in penalties or delay or disrupt the development and operations of our wastewater treatment and industrial water supply facilities. In such cases, our results of operations and cash flow could be materially and adversely affected.

We have entered into a letter of intent for a proposed wastewater treatment facility, which may not be legally enforceable, and for which we may be unable to reach a final agreement

On April 21, 2011, Xi Zhou Enterprises entered into a letter of intent with Qingyuan Jingu Science Park Construction Office, whereby, among other terms, Xi Zhou Enterprises would be responsible for building a wastewater treatment facility in Qingyuan Jingu Science Park. We understand from our PRC legal counsel that this letter of intent is non-binding as to both parties and not legally enforceable under PRC law. We cannot assure you that we will be able to reach a final agreement with Qingyuan Jingu Construction Office on suitable terms or at all. For more details, please refer to the section headed "Business — Our Projects — Proposed Qingyuan Jingu Wastewater Treatment Facility" in this prospectus.

We are subject to risks associated with our planned joint venture with Guangri Group

Pursuant to a joint venture memorandum of understanding entered into between Guangzhou To Kee and Guangri Group dated December 18, 2010, and a subsequent agreement entered into between Guangzhou To Kee and Guangzhou Xintao dated January 5, 2011, we plan to establish a project company with Guangri Group to pursue a municipal waste-to-energy project. If we establish an equity joint venture with Guangri Group, there may be differing interests which may lead to disagreements or disputes between our Company and Guangri Group in connection with, among others, the performance of each party's respective obligations under the joint venture, the scope of responsibilities under the joint venture, and financial difficulties encountered by any of the joint venture parties. We cannot assure you that there will not be any such disagreement or dispute between us and Guangri Group in the future. For more details on the agreements entered into with regard to the waste-to-energy project, please refer to the section headed "Business — Our Waste-to-Energy Project."

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RISKS RELATING TO THE INDUSTRY

We are subject to risks associated with changes in regulations for wastewater treatment and industrial water supply services that may require new technologies

We are an established wastewater treatment and industrial water supply solutions provider, and in order to maintain our customer base and market share, we must ensure that we are able to continually provide relevant solutions to our customers that meet their needs. We are engaged in an industry where regulatory standards play a critical role in influencing the demand for our services. Any changes in legislative, regulatory or industrial requirements may render certain of our wastewater treatment and industrial water supply solutions obsolete.

Changes in regulations or standards for wastewater treatment and industrial water supply may necessitate the use of new technologies or the improvement of our existing technologies. For example, after the outbreak of SARS in 2003, higher standards for treatment of wastewater discharged by hospitals and clinics were imposed by the then State Environmental Protection Administration, currently the Ministry of Environmental Protection of the PRC, to prevent the spread of communicable diseases. We may need to develop new technologies or upgrade existing technologies, or upgrade existing facilities to meet the standards imposed by the relevant regulatory authorities, which will require higher financial, human and other resources. Our ability to anticipate changes in regulatory standards and to develop and introduce wastewater treatment and industrial water supply processes and to keep up with such new regulatory standards will be significant factors in our ability to grow and to remain competitive.

In the event that we are unable to develop or source for new and enhanced wastewater treatment and industrial water supply solutions to keep up with such technological changes in a timely manner and at reasonable cost, we may not be able to maintain our competitive edge and our market share, and our profits may be adversely affected.

Our industry is subject to economic and market conditions in China and other countries

Our overall financial results will depend substantially upon the economies of China and its principal export markets. Our results are also affected by local market conditions in the regions where we operate. We currently have treatment facilities in Guangdong and Hunan provinces, and we will also be subject to local market conditions in Sichuan and other provinces to which we plan to expand. Economic downturns in those areas could adversely affect our business. In addition, our industry is subject to fluctuations in supply and demand in the textile industry, paper and pulp making and food and beverage industries as well as other industries which we expand. Periods of relatively slow economic growth, a recession or public perception that a slowdown or recession may occur, especially in the regions or countries where the end users of products manufactured by our customers are located, may decrease the demand for our treatment services, thereby adversely affecting our sales and profitability. For example, during periods of slowing growth or recession, the textile industry may experience significant cutbacks in production which could substantially decrease the discharge of wastewater or the use of industrial water in the manufacturing process, which in turn could adversely affect demand for our treatment services.

For the past two years, the global financial markets have been affected by a general slowdown of economic growth in the U.S. and globally, resulting in substantial volatility in global equity securities markets and tightening of liquidity in global credit markets. While it is difficult to predict how long these conditions will exist and the extent to which we may be affected, these developments may continue to present risks to our business operations for an extended period of time, including a potential slowdown in our provision of services to customers, increase in interest expenses on our bank borrowings, or reduction in the amount of banking facilities currently available to us. The availability of credit to entities, such as ourselves, operating within emerging markets, is significantly influenced by the levels of investor confidence in such markets as a whole and any factors that may

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impact market confidence. Such factors may range from a mere decrease in credit ratings to a state or central bank intervention in a market. Since the start of the financial crisis, investors have grown more sensitive to market information, especially in relation to any credit difficulties. These challenging market conditions have resulted in reduced liquidity, widening of credit spreads in credit markets, a reduction in available financing and a tightening of credit terms. Even though the market has been under positive adjustments since late 2009, it is difficult to predict whether such growth or recovery will persist and how long the repercussions of the financial crisis will continue to affect our business and the global economy as a whole.

Should there be a further economic downturn or credit crisis for any reason, our ability to borrow funds from current or other funding sources may be further limited, causing our continued access to funds to become more expensive, which would materially and adversely affect our business, liquidity, results of operations, financial condition, and most importantly, our expansion projects. Moreover, apart from our access to funds, further economic downturn will also affect our customers, and may in turn reduce the demand for our services or affect their abilities to settle amounts owed to us in respect of services provided previously. As such, we cannot assure that our business operations will not suffer further adverse effects caused by the previous or future credit crisis in the near future.

We are subject to risks associated with changes in the current regulatory environment

We are currently in a regulatory environment where the PRC Government encourages the development of the environmental protection industry. Although the PRC Government has stated its intention to increase investment on the environmental protection industry going forward, we cannot assure you that it will end up spending such amount, or predict how and to what extent such increased investment will affect the wastewater treatment and industrial water supply services industry. You should not regard the PRC Government's intentions or announcements as an indication of the future prospects of our industry or our future performance. Furthermore, we cannot assure that such regulations or policies will achieve their anticipated results or that we can benefit from them. In addition, we cannot assure you that the regulations or government policies will continue to support the wastewater treatment and industrial water supply services industry and the development of specialized industrial parks or clusters. In the event that we cannot respond to regulatory changes in a timely manner, our competitive edge and our profits may be adversely affected.

Failure to comply with environmental, labor, health and safety laws and regulations in the PRC in which we operate, may adversely affect our business, financial condition and results of operations

In the normal course of our business operations, we are subject to various PRC laws and regulations relating to environmental and safety matters. Failure to meet the environmental laws and regulations in the PRC may result in governmental sanctions. The development of our projects and our continuing operations require the receipt of various required licenses, permits and authorizations, such as, among other things, building and zoning permits as well as environmental licenses. The discharge of waste and pollutants from our treatment process into the environment may give rise to liabilities that may require us to incur costs to remedy such discharge. For example, on November 29, 2009, the environmental department of Zengcheng city, Guangdong province notified us that Guangzhou Xintao violated the wastewater discharge standard and had illegally discharged untreated wastewater from the treatment facility. Guangzhou Xintao had rectified the violations and re-commenced operation of the treatment facility on December 2, 2009. Guangzhou Xintao was charged with a fine of approximately RMB251,369 and RMB100,000 in relation to discharging wastewater below the wastewater discharge

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standards and illegal discharge, respectively and payments for the aforesaid fines were made on December 4, 2009. As a result of such non-compliance, Guangzhou Xintao was listed as one of the 20 enterprises in Guangdong province under supervision and rectification in 2010 by Environmental Protection Agency of Guangdong province (廣東省環保廳). Please refer to the section headed “Business — Environmental Matters” for further details. We cannot assure you that situations giving rise to material environmental liabilities will not occur again in the future. As we expand into sludge treatment and waste-to-energy businesses, we will be subject to a wider spectrum of environmental regulations. In addition, we cannot assure you that we will be able to comply with new legislations should the PRC Government impose stricter environmental, health and safety protection standards and regulations in the future. Any increase in compliance or other operating costs resulting from the implementation of additional environmental, health and safety protection measures and/or failure to comply with new environmental, health and safety laws or regulations may have a material adverse effect on our business, financial condition, results of operations or prospects.

Further, in accordance with relevant PRC labor laws and regulations, we are required to contribute to a number of employee social insurance schemes including medical, maternity, work-related injury, unemployment and pension insurance, and to the employee housing accumulation fund. We provide social insurance and contribute to the housing accumulation fund for our employees in accordance with the policies and practices of local government authorities’ interpretation and implementation of relevant PRC labor laws and regulations. Changes in labor laws or regulations in the PRC in which we operate may result in us incurring significant costs in order to maintain compliance with such laws and regulations and may delay or prevent project completion. We cannot assure you that a failure to comply with any such labor regulations would not result in penalties, revocation of permits or licenses for our operations or litigation or that our business, financial condition and results of operations would not be adversely affected.

Environmental risks may adversely affect our business, profitability, financial condition and results of operations

We are exposed to environmental risks due to the nature of our operations. Environmental situations could arise in the future, which could affect our profits and our ability to pay dividends. Water supplies may be exposed to pollution, including pollution from the development of naturally occurring compounds, or contamination resulting from man-made sources. Furthermore, the types and amounts of pollutants in the water or wastewater we treat may increase unexpectedly due to a number of factors, including the occurrence of natural disasters or industrial accidents, increases in levels of manufacturing activities or consumption and shortage of water supplies. In the event where such pollution or contamination occur in respect of the water supplies or types or amounts of pollutants in the water or wastewater increase significantly and we are unable to adequately and efficiently treat the contaminated water or remove pollutants from wastewater, our business, financial condition and results of operations may be materially and adversely affected. In addition, we could be held liable for human exposure to dangerous substances in water supplies for or other environmental damage. Any of the foregoing could subject us to liability, which could materially and adversely affect our business, financial condition and results of operations.

The water supply to our plants is also at risk of water shortages caused by prolonged periods of drought. If there are supply shortfalls caused by prolonged periods of drought, additional costs may be incurred by our treatment plants in order to provide emergency reinforcement of supplies to areas facing shortage. Restrictions on water use may adversely affect turnover from metered customers.

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RISKS RELATING TO BUSINESS OPERATIONS IN THE PRC

PRC economic, political and social conditions, as well as governmental policies, could affect our business and prospects

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

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

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

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

Recently, a series of protests occurred in various places in China. The protests may have caused disturbances among the local populations and disrupted the operations of some local businesses. Our Directors have confirmed that none of the protests were related to our business operations and such protests have had no material adverse effect on our business and operations. However, we cannot assure you that, if such protests are prolonged or escalated, our business operations or our customers' business operations will not be affected by such protests or government measures, if any, adopted as a result of the protests.

Uncertainty in the PRC legal system may make it difficult for us to predict the outcome of any disputes that we may be involved in

Our core business is conducted within China and is governed by PRC laws and regulations. Our principal operating subsidiaries are located in China and are subject to PRC law and regulations. The PRC legal system is a civil law system based on written statutes, and prior court decisions can only be used as a reference. Additionally, PRC written laws are often principle-oriented and require detailed interpretations by the enforcement bodies to further apply and enforce such laws. Since 1979, the PRC Government has promulgated laws and regulations in relation to economic matters such as

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foreign investment, corporate organization and governance, commerce, taxation and trade, with a view to developing a comprehensive system of commercial law, including laws relating to the wastewater treatment and industrial water supply services industry. However, because these laws and regulations have not been fully developed, and because of the limited volume of published cases and the non-binding nature of prior court decisions, interpretation of PRC laws and regulations involves a degree of uncertainty. Depending on the government agency or how an application or case is presented to such an agency, we may receive less favorable interpretations of laws and regulations than our competitors.

In general, the PRC judiciary is relatively inexperienced in enforcing the laws and regulations that currently exist, leading to a degree of uncertainty as to the outcome of any litigation. Further, it may be difficult to obtain timely and equitable enforcement, or to obtain enforcement of a judgment by a court of another jurisdiction. In addition, any litigation in China may be protracted and result in substantial costs and diversion of resources and management attention. In addition, the introduction of new PRC laws and regulations and the interpretation of existing ones may be subject to policy changes reflecting domestic political or social changes. As the PRC legal system develops, the promulgation of new laws, changes to existing laws and the preemption of local regulations by national laws may have a material adverse effect on our business, financial condition, results of operations and prospects.

Changes in the PRC governmental rules and regulations will have a significant impact on our business

Currently, our business and operations in the PRC entail the procurement of permits, licenses and certificates from the relevant government authorities. Thus, our business and operations in the PRC are subject to PRC government rules and regulations. From time to time, changes in the rules and regulations or the implementation thereof may require us to obtain additional approvals and licenses from the PRC authorities for the conduct of our operations in the PRC. In such event, we may incur additional expenses in order to comply with such requirements. This will in turn affect our financial performance as our business costs will increase. Furthermore, we also cannot assure you that such approvals or licenses will be granted to us promptly or at all. If we experience delay in or are unable to obtain such required approvals or licenses, our operations and business in the PRC, and hence our overall financial performance will be adversely affected. Please refer to the section headed “Regulations” of this prospectus for details.

Any future natural disasters, acts of God, outbreak of any of several communicable diseases in China or any other epidemic may adversely affect our operational results

Our business is subject to general economic and social conditions in China. Natural disasters, epidemics and other acts of God which are beyond our control may adversely affect the economy, infrastructure and livelihood of the people in China. Some regions in China, including the cities where we operate, are under the threat of flood, earthquake, sandstorm, snowstorm, fire, drought, or epidemics such as Severe Acute Respiratory Syndrome, or SARS or H5N1 avian flu. For instance, a serious earthquake and its successive aftershocks hit Sichuan Province in May 2008 and resulted in tremendous loss of lives and destruction of assets in the region. In April 2009, a human swine influenza also known as Influenza A (H1N1), broke out in Mexico and spread globally, resulting in the loss of lives and widespread fear. Past occurrences of epidemics, depending on their scale, have caused different degrees of damage to the national and local economies in China. If in the future any of our employees or our customers in our facilities are suspected of having SARS, H5N1 avian flu, or H1N1 human swine flu, or any other epidemic or any of our facilities are identified as a possible source of spreading such epidemic, we may be required to quarantine the employees that have been suspected of becoming infected, as well as others that had come into contact with those employees. We may also be required to disinfect the affected properties and therefore suffer a temporary

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suspension of our operations. Any quarantine or suspension of our operations will affect our operational results. A recurrence of SARS or an outbreak of any other epidemics in China, such as the H5N1 avian flu or the H1N1 human swine flu, may result in material disruptions to our operations and delays in meeting our customers' demand, which, in turn, would materially and adversely affect our business, financial condition and results of operations.

Changes in government control of currency conversion and in PRC foreign exchange regulations may adversely affect our business operations

The PRC Government imposes controls on the convertibility between Renminbi and foreign currencies and the remittance of foreign exchange out of China. We receive substantially all our turnover in Renminbi. Under our current corporate structure, our income is primarily derived from dividend payments from our PRC subsidiaries. Our PRC subsidiaries must convert their Renminbi earnings into foreign currency before they may pay cash dividends to us or service their foreign currency denominated obligations. Under existing PRC foreign exchange regulations, payments of current-account items may be made in foreign currencies without prior approval from the SAFE, by complying with certain procedural requirements.

However, approval from appropriate governmental authorities is required when Renminbi is converted into foreign currencies and remitted out of China for capital-account transactions, such as the repatriation of equity investment in China and the repayment of the principal of loans or debt denominated in foreign currencies. Such restrictions on foreign exchange transactions under capital accounts also affect our ability to finance our PRC subsidiaries. Subsequent to this Global Offering, we have the choice, as permitted by the PRC foreign investment regulations, to invest our net proceeds from this Global Offering in the form of registered capital or a shareholder loan into our PRC subsidiaries to finance our operations in China. Our choice of investment is affected by the relevant PRC regulations with respect to capital-account and current-account foreign exchange transactions in China. Our investment decisions are additionally affected by various other measures taken by the PRC Government relating to the PRC wastewater treatment and industrial water supply market, including those disclosed in the section headed "Regulations". In addition, our transfer of funds to our subsidiaries in China is subject to approval by PRC governmental authorities in the case of an increase in registered capital, and subject to approval by and registration with PRC governmental authorities in case of shareholder loans to the extent that the existing foreign investment approvals received by our PRC subsidiaries permit any such shareholder loans at all. These limitations on the flow of funds between us and our PRC subsidiaries could restrict our ability to act in response to changing market conditions.

Fluctuations in the value of Renminbi may adversely affect our business and the value of distributions by our PRC subsidiaries

The value of Renminbi depends, to a large extent, on domestic and international economic, financial and political developments and China's governmental policies, as well as supply and demand in the local and international markets. Since 1999 till 2005, the conversion of Renminbi into foreign currencies, including the U.S. dollar and the Hong Kong dollar, was based on exchange rates set and published daily by the PBOC in light of the previous day's inter-bank foreign exchange market rates in China and the then current exchange rates on the global financial markets. The official exchange rate for the conversion of Renminbi into the U.S. dollar was largely stable until July 2005. On July 21, 2005, the PBOC revalued Renminbi by reference to a basket of foreign currencies, including the U.S. dollar. As a result, the value of Renminbi appreciated by more than 2% on that day. Since then, the PBOC has allowed the official Renminbi exchange rate to float against a basket of foreign currencies. Further, from May 18, 2007, the PBOC enlarged the floating band for the trading prices in the inter-bank foreign exchange market of the Renminbi against the U.S. dollar from 0.3% to 0.5% around the central parity rate, effective on May 21, 2007. This allows the Renminbi to fluctuate

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against the U.S. dollar by up to 0.5% above or below the central parity rate published by the PBOC. On June 19, 2010, the PBOC announced its intention to proceed with the reform of the Renminbi exchange rate regime to increase the Chinese currency's exchange rate flexibility. These changes in currency policy resulted in the Renminbi appreciating against the U.S. dollar by approximately 20.0% from July 21, 2005 to May 31, 2011. The Renminbi exchange rate could fluctuate widely against the U.S. dollar or any other foreign currency in the future. Since our income and profits are primarily denominated in Renminbi, any appreciation of Renminbi will increase the value of dividends and other distributions payable by our PRC subsidiaries in foreign currency terms. Conversely, any depreciation of Renminbi will decrease the value of dividends and other distributions payable by our PRC subsidiaries in foreign currency terms.

We may be deemed to be a PRC resident enterprise under the EIT Law and be subject to PRC tax on our worldwide income, which may significantly increase our income tax expenses and materially decrease our profitability or otherwise adversely affect the value of your investment

Under the EIT Law that took effect on January 1, 2008, enterprises established outside of China whose “de facto management bodies” are located in China are considered to be “resident enterprises” and will generally be subject to the uniform 25% corporate income tax rate as to their aggregate income (excluding dividends received from “resident enterprises”). The Regulation on the Implementation of the Enterprise Income Tax Law further defines “de facto management bodies” as bodies that have substantial or overall management or control over operations, personnel, finances, property, and other aspects of the enterprise. As substantially all of our management functions with respect to daily operations, financial decisions and personnel decisions are located in China, we may be deemed as a “tax resident enterprise” under the EIT Law. If we or any of our subsidiaries registered outside the PRC is treated as a “tax resident enterprise” under the EIT Law, our income tax expenses may increase significantly, and our profitability could decrease materially.

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

Under the EIT Law and the implementation rules issued by the State Council, PRC withholding income tax at the rate of 10% is applicable to dividends payable by a PRC tax resident enterprise to investors (excluding individual natural persons) that are “non-resident enterprises” (and that do not have an establishment or place of business in the PRC, or that have such establishment or place of business but the relevant income is not effectively connected with the establishment or place of business) to the extent that such dividends have their sources within the PRC. Similarly, any gain realized on the transfer of shares of a PRC tax resident enterprise by such investors is also subject to 10% PRC income tax if such gain is regarded as income derived from sources within the PRC. The EIT Law and its implementation rules are relatively new and ambiguities exist with respect to the interpretation of the provisions relating to identification of PRC-sourced income. If we were considered to be a PRC “resident enterprise” under the EIT Law, it is unclear whether the dividends we pay with respect to our Shares, or the gain our foreign shareholders (excluding individual natural persons) may realize from the sale of the Shares, may be treated as income derived from sources within the PRC and be subject to PRC income tax. If we are required under the EIT Law to withhold PRC income tax on our dividends payable to our foreign shareholders, or if they are required to pay PRC income tax on the transfer of the Shares, the value of their investment in our Shares may be materially and adversely affected.

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We rely principally on dividends paid by our subsidiaries to fund any cash and financing requirements we may have, and any limitation on the ability of our PRC subsidiaries to pay dividends to us could have a material adverse effect on our ability to conduct our business

We are a holding company and rely principally on dividends paid by our subsidiaries for cash requirements, including the funds necessary to service any debt we may incur. If any of our subsidiaries incurs debt in its own name in the future, the instruments governing the debt may restrict dividends or other distributions to us.

Furthermore, applicable PRC laws, rules and regulations permit payment of dividends by our PRC subsidiaries only out of their retained earnings, if any, determined in accordance with PRC accounting standards. Our PRC subsidiaries are required to set aside a certain percentage of their after tax profits based on PRC accounting standards each year to their reserve fund in accordance with the requirements of relevant laws and provisions in their respective articles of association. As a result, our PRC subsidiaries are restricted in their ability to transfer a portion of their net income to us whether in the form of dividends, loans or advances. Any limitation on the ability of our subsidiaries to pay dividends to us could materially and adversely limit our ability to grow, make investments or acquisitions that could be beneficial to our businesses, pay dividends or otherwise fund and conduct our business. Under the EIT Law and implementation rules issued by the State Council, PRC income tax at the rate of 10% is applicable to dividends paid by Chinese enterprises to “non-resident enterprises” (enterprises that do not have an establishment or place of business in the PRC, or that have such establishment or place of business but the relevant income is not effectively connected with the establishment or place of business) subject to the application of any relevant income tax treaty that the PRC has entered into, which provides for a lower withholding tax rate. If our Company or our non-PRC subsidiaries are considered to be a “non-resident enterprise,” any dividend that our Company or any such subsidiary receives from our PRC subsidiaries may be subject to PRC tax at the rate of 10% (or lower treaty rate).

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

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

It may be difficult to effect service of process on our Directors or executive officers who reside in mainland China or to enforce against us or them in mainland China any judgments obtained from non-PRC courts

A majority of our senior management members reside in mainland China, and substantially all of our assets, and substantially all of the assets of those persons are located in mainland China. Therefore, it may be difficult for investors to effect service of process upon those persons inside mainland China or to enforce against us or them in mainland China any judgments obtained from non-PRC courts. China does not have treaties providing for the reciprocal recognition and enforcement

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of judgments of courts with the Cayman Islands, the United States, the United Kingdom, Japan and many other developed countries. Therefore, recognition and enforcement in China of judgments of a court in any of these jurisdictions in relation to any matter not subject to a binding arbitration provision may be difficult or even impossible.

The enforcement of the Labor Contract Law and other labor-related regulations in the PRC may adversely affect our business and profitability

The Labor Contract Law became effective on January 1, 2008 in China. It imposes more stringent requirements on employers in relation to entry into fixed term employment contracts, hiring of temporary employees and dismissal of employees. A minimum wage requirement has also been imposed by the Labor Contract Law. In addition, under the “Regulations on Paid Annual Leave for Employees” (職工帶薪年休假條例) and its implementation measures, which became effective on January 1, 2008 and September 18, 2008, respectively, employees who have worked continuously for more than one year are entitled to a paid vacation ranging from five to 15 days, depending on the length of the employees’ work time. Employees who waive their vacation time at the request of employers shall be compensated for three times their normal daily salaries for each vacation day being waived. Such laws and regulations may increase our labor costs. In addition, certain companies operating in the PRC have experienced labor unrest conditions in 2010. We cannot assure you that labor disputes, work stoppages or strikes will not arise in the future. Increases in our labor costs and future disputes with our employees could adversely affect our business, financial condition or results of operations.

RISKS RELATING TO THE GLOBAL OFFERING

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

Prior to the Global Offering, no public market existed for our Shares. The Offer Price for our Offer Shares will be determined by us and the Sole Global Coordinator (on behalf of the Underwriters) and may differ significantly from the market price for our Shares following the completion of the Global Offering. We have applied to the Stock Exchange for the listing of, and permission to deal in, our Shares. However, there is no assurance that the Global Offering will result in the development of an active and liquid public trading market for our Shares. If an active public market for our Shares does not develop, the Shares could trade at a price lower than their initial offering price and you may not be able to resell your Shares for an extended period of time, if at all.

The trading volume and market price of our Shares may be volatile, which could result in substantial losses for investors purchase our Shares in the Global Offering

The price and trading volume of our Shares may be highly volatile. Factors, some of which are beyond our control, such as variations in our turnover, earnings and cash flow, changes in our pricing policy as a result of the presence of competitors, announcements of new technologies, strategic alliances or acquisitions, industrial or environmental accidents we may suffer, addition or departure of key personnel, changes in ratings by financial analysts and credit rating agencies, litigation, or fluctuations in the market prices for our services or raw materials could cause large and sudden changes in the volume and price at which our Shares will trade. In addition, the Stock Exchange and other securities markets have, from time to time, experienced significant price and volume fluctuations that are not related to the operating performance of any particular company. These fluctuations may also materially and adversely affect the market price of our Shares.

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The Offer Price may not be indicative of prices that will prevail in the trading market

The Offer Price will be the result of negotiations between the Sole Global Coordinator (on behalf of the Underwriters) and us, and may differ from the market prices for our Shares after listing. Due to a gap between pricing and trading of the Offer Shares and that our Offer Shares will not commence trading on the Stock Exchange until the Listing Date, the initial trading price of the Offer Shares could be lower than the Offer Price.

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

The Offer Price of our Shares is higher than the net tangible asset value per Share immediately prior to the Global Offering. Therefore, you and other purchasers of our Shares in the Global Offering will experience an immediate dilution in pro forma net tangible asset value of approximately HK\$0.66 per Share, based on the maximum Offer Price of HK\$2.38.

In order to expand our business, we may consider offering and issuing additional Shares or equity-linked securities in the future. You and other purchasers of our Shares may experience further dilution in the net tangible assets book value per Share if we issue additional Shares at a price lower than the net tangible assets book value per Share at the time of their issue.

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

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

We may be unable to pay any dividend on our Shares

We will only pay dividends out of the accumulated realized profits of our Company so far as not previously utilized by distribution or capitalization, less the accumulated realized losses of our Company, so far as not previously written off in a reduction or reorganization of capital duly made. Our ability to pay dividends will therefore depend on the ability of our Company to generate sufficient accumulated net realized profits.

Our Company is a holding company established in the Cayman Islands and operates its business through its operating subsidiaries in China. Therefore, the availability of funds to us to pay dividends to our Shareholders and to service our indebtedness will depend in large part upon dividends received from our operating subsidiaries. If these subsidiaries incur debt or losses, such indebtedness or loss may impair their ability to pay dividends or other distributions to us. As a result, our ability to pay dividends and to service our indebtedness will be restricted. Furthermore, pursuant to a loan agreement dated March 16, 2010 entered into with ICBC, Guangzhou Haitao is currently restricted by certain covenants from making distributions to its shareholders that include restricting us as the borrower from paying dividends until the loan is fully repaid, and giving repayment priority to the

RISK FACTORS

bank loan over the debt owed by us to our shareholders. These restrictions may limit the funds available to pay dividends to our shareholders. For further information regarding our declaration and payment of dividends, Please refer to the section headed “Summary — Dividend Policy” in this prospectus.

Our ability to declare dividends in relation to our Shares will also depend on our future financial performance, which, in turn, depends on our success in implementing our business strategy and expansion plans and on financial, competitive, regulatory, and other factors, general economic conditions, demand for and prices of our services, costs of supplies and other factors specific to our industry, many of which are beyond our control. The receipt of dividends from our operating subsidiaries may also be affected by the passage of new laws, adoption of new regulations or changes to, or in the interpretation or implementation of existing laws and regulations and other events out of our control. PRC laws require that dividends be paid only out of the net profit calculated according to PRC accounting principles, which differ in many aspects from generally accepted accounting principles in other jurisdictions. In addition, restrictive covenants in our credit facilities or other agreements that we may enter into in the future may also restrict the ability of our operating subsidiaries to make distributions to us. Therefore, these restrictions on the availability and usage of our major source of funding may impact our ability to pay dividends to our Shareholders.

The interests of our Controlling Shareholders may not be aligned with those of our other Shareholders

Immediately upon completion of the Global Offering, our Controlling Shareholders, Mr. Tsui and Keen Vast, will have effective control over approximately 66.5% of our Company’s issued share capital, assuming the Over-allotment Option is not exercised and no shares are issued upon the exercise of options granted under the Share Option Scheme. As a result, Mr. Tsui and Keen Vast will be able to exercise significant influence over all matters requiring Shareholders’ approval, including the appointment of directors and the approval of significant corporate transactions. They may also have veto power with respect to any Shareholders’ action or approval requiring a majority vote except where they are required by the Listing Rules to abstain from voting. Such concentration of ownership may also have the effect of delaying, preventing or deterring a change in control of our Company and our Group or otherwise discourage a potential acquiror from attempting to obtain control of us through corporate actions such as merger or takeover attempts, which could conflict with the interests of our public Shareholders. In the case where the interests of the Controlling Shareholders conflict with those of our other shareholders, or if the Controlling Shareholders choose to cause us to pursue objectives that would conflict with the interests of our other shareholders, such other shareholders could be left in a disadvantageous position by such actions caused by the Controlling Shareholders.

We cannot guarantee the accuracy of facts, forecasts, other statistics and information derived from various official government publications or obtained from the Ernst & Young Report with respect to China, the PRC economy and the PRC wastewater treatment and industrial water supply services industry contained in this prospectus

Facts, forecasts, other statistics and information in this prospectus relating to China, the PRC economy and the PRC wastewater treatment and industrial water supply services industry have been derived from various official government publications or obtained from the Ernst & Young Report. However, we cannot guarantee the quality or reliability of the source materials. They have not been prepared or independently verified by us, the Selling Shareholder, the Sole Global Coordinator, and the Underwriters or any of our or their respective affiliates or advisors and, therefore, we make no representation as to the accuracy of such facts, forecasts, statistics and information, which may not be consistent with other information compiled within or outside China. We have, however, exercised reasonable care in the reproduction and extraction of such facts, forecasts, statistics and information for the purpose of inclusion in this prospectus. Due to possibly flawed or ineffective collection

RISK FACTORS

methods or discrepancies between published information and market practice and other problems, the facts, forecasts, statistics and information in this prospectus may be inaccurate or may not be comparable to facts, forecasts, statistics and information produced with respect to other economies. Furthermore, we cannot assure you that they are stated or compiled on the same basis or with the same degree of accuracy as may be the case elsewhere. Therefore, you should not unduly rely upon the facts, forecasts, statistics and information with respect to China, the PRC economy and the PRC wastewater treatment and industrial water supply services industry contained in this prospectus.

Investors should read this entire prospectus carefully and should not consider any particular statements in this prospectus or in published media reports without carefully considering the risks and other 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, in addition to marketing materials published by us in compliance with the Listing Rules. We have not authorized any such press and media reports, and the financial information, financial projections, valuations and other information about us contained in such unauthorized press and media coverage may not truly reflect what is disclosed in this prospectus. We make no representation as to the appropriateness, accuracy, completeness or reliability of any information disseminated in the media and we do not accept any responsibility for the accuracy or completeness of any financial information or forward-looking statements contained therein. To the extent that any of the information in the media is inconsistent or conflicts with the information contained in this prospectus, we disclaim it. Accordingly, prospective investors should only rely on information included in this prospectus and should not rely on any of the information in press articles or other media coverage in making any decision as to whether to purchase our Shares.

INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

DIRECTORS' RESPONSIBILITY FOR THE CONTENTS OF THIS PROSPECTUS

This prospectus, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Companies Ordinance, the Securities and Futures (Stock Market Listing) Rules of Hong Kong (as amended) and the Listing Rules for the purpose of giving information with regard to our Company. The Directors have made all reasonable enquiries that, to the best of their knowledge and belief, the information contained in this prospectus is accurate and complete in all material respects and not misleading or deceptive, there are no other matters the omission of which would make any statement in this prospectus misleading, and all opinions expressed in this prospectus have been arrived at after due and careful considerations, and are founded on bases and assumptions that are fair and reasonable.

UNDERWRITING

The Global Offering comprises the Hong Kong Public Offering of initially 29,100,000 Offer Shares and the International Offering of initially 261,900,000 Offer Shares, comprising of 234,900,000 newly issued Shares offered by us and 27,000,000 Sale Shares offered by the Selling Shareholder, subject, in each case, to re-allocation on the basis described in the section headed "Structure of the Global Offering" in this prospectus and, in case of the International Offering, to any exercise of the Over-allotment Option.

This prospectus is published solely in connection with the Hong Kong Public Offering which forms part of the Global Offering. The listing of the Shares on the Stock Exchange is sponsored by the Sole Sponsor. The Hong Kong Public Offering is fully underwritten by the Hong Kong Underwriter under the terms of the Hong Kong Underwriting Agreement on a conditional basis. One of the conditions is that we and the Sole Global Coordinator (on behalf of the Underwriters) have agreed on the Offer Price. 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 International Offering will be fully underwritten by the International Underwriters under the terms of the International Underwriting Agreement. The Global Offering is managed by the Sole Global Coordinator.

The Offer Price is expected to be fixed by agreement between the Sole Global Coordinator (on behalf of the Underwriters) and us on the Price Determination Date. The Price Determination Date is expected to be on or around June 30, 2011 and, in any event, not later than July 6, 2011. If, for any reason, the Offer Price is not agreed between us and the Sole Global Coordinator (on behalf of the Underwriters) the Global Offering will not proceed. For full information about the Underwriters and the underwriting arrangements, please refer to the section headed "Underwriting" in this prospectus.

RESTRICTIONS ON SALE OF OFFER SHARES

Each person acquiring the Hong Kong Offer Shares under the Hong Kong Public Offering will be required to, or be deemed by his acquisition of Offer Shares to, confirm that he is aware of the restrictions on offers of the Offer Shares described in this prospectus.

No action has been taken to permit an offering of the Hong Kong Offer Shares or the distribution of this prospectus in any jurisdiction other than Hong Kong. Accordingly, this prospectus may not be used for the purpose of, and does not constitute, an offer or invitation in any jurisdiction or in any circumstances in which such an offer or invitation is not authorized or to any person to whom it is unlawful to make such an offer or invitation. The distribution of this prospectus 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 authorization by the relevant securities regulatory authorities or an exemption therefrom.

INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

INFORMATION ON THE GLOBAL OFFERING

We offer the Hong Kong Offer Shares solely on the basis of the information contained and representations made in this prospectus and the related Application Forms and on the terms and subject to the conditions contained therein. No person is authorized 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 authorized by us, the Selling Shareholder, the Sole Global Coordinator, the Sole Sponsor, any of the Underwriters, any of their respective directors, agents, employees or advisors or any other parties involved in the Global Offering.

APPLICATION FOR LISTING ON THE STOCK EXCHANGE

We have applied to the Listing Committee of the Stock Exchange for the approval for the listing of, and permission to deal in, our Shares in issue and to be issued pursuant to the Capitalization Issue and the Global Offering (including the additional Shares which may be issued pursuant to the exercise of the Over-allotment Option) and any Shares which may be issued upon the exercise of any options granted under the Share Option Scheme. None of our Shares or loan capital of our Company is listed on or dealt in on any other stock exchange. At present, our Company is not seeking or proposing to seek such listing or permission to deal in our Shares on any other stock exchange.

Under section 44B(1) of the Companies Ordinance, any allotment made in respect of any application will be invalid if the listing of, and permission to deal in, the 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 the Stock Exchange.

OUR SHARES WILL BE ELIGIBLE FOR ADMISSION INTO CCASS

If the Stock Exchange grants the listing of, and permission to deal in, our Shares on the Stock Exchange and we comply with the stock admission requirements of HKSCC, our Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the Listing Date 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. You should seek advice from your stockbroker or other professional advisors for details of such settlement arrangements as such arrangements will affect your rights and interests.

We have made all necessary arrangements for our Shares to be admitted into CCASS. All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

PROFESSIONAL TAX ADVICE RECOMMENDED

You should consult your professional advisors if you are in any doubt as to the taxation implications of subscribing for, purchasing, holding or disposing of, and dealing in, our Shares (or exercising rights attaching to them) under the laws of Hong Kong and the place of your operations, domicile, residence, citizenship or incorporation. We emphasize that none of the Sole Global Coordinator, the Sole Bookrunner, the Sole Sponsor, Underwriters, the Selling Shareholder, us, any of our or their respective directors or any other person or party involved in the Global Offering accepts responsibility for your tax effects or liabilities resulting from your subscription for, purchasing, holding or disposing of, or dealing in, our Shares or your exercise of any rights attaching to our Shares.

INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

HONG KONG REGISTER OF MEMBERS AND STAMP DUTY

All Shares issued by us pursuant to applications made in the Hong Kong Public Offering will be registered on our register of members to be maintained in Hong Kong. Our Company's principal register of members will be maintained by our Company's principal share registrar in the Cayman Islands. Our Company's Hong Kong register of members will be maintained by our Hong Kong Share Registrar, Computershare Hong Kong Investor Services Limited.

No stamp duty is payable by applicants in the Global Offering.

Dealings in the Shares registered on the register of members of our Company maintained in Hong Kong will be subject to Hong Kong stamp duty. Only Shares registered on our Hong Kong register of members may be traded on the Stock Exchange.

OVER-ALLOTMENT AND STABILIZATION

Stabilization is a practice used by underwriters in some markets to facilitate the distribution of securities. To stabilize, the underwriters may bid for, or purchase, the newly issued securities in the secondary market, during a specified period of time, to slow and, if possible, prevent a decline in the market price of the securities below the offer price. In Hong Kong, the price at which stabilization is effected is not permitted to exceed the initial public offer price.

In connection with the Global Offering, the Stabilizing Manager or any person acting for it may, on behalf of the Underwriters, and to the extent permitted by applicable laws of Hong Kong or elsewhere, over-allocate or effect transactions with a view to stabilizing or maintaining the market price of our Shares at a level higher than that which might otherwise prevail for a limited period after the commencement of trading in the Shares on the Stock Exchange. Such transactions may be effected in compliance with all applicable laws and regulatory requirements. However, there is no obligation on the Stabilizing Manager or any person acting for it to do this. Such stabilization, if commenced, will be conducted at the absolute discretion of the Stabilizing Manager or any person acting for it and may be discontinued at any time, and must be brought to an end after a limited period.

The Stabilizing Manager or any person acting for it may take all or any of the following stabilizing actions in Hong Kong during the stabilization period:

- (i) purchase, or agree to purchase, any of the Offer Shares or offer or attempt to do so for the sole purpose of preventing or minimizing any reduction in the market price of the Offer Shares;
- (ii) in connection with any action described in paragraph (i) above;
 - (A) (1) over-allocate the Offer Shares; or
 - (2) sell or agree to sell the Offer Shares so as to establish a short position in them, for the sole purpose of preventing or minimizing any reduction in the market price of the Offer Shares;
 - (B) exercise the Over-allotment Option and purchase or subscribe for or agree to purchase or subscribe for the Offer Shares in order to close out any position established under paragraph (A) above;

INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

- (C) sell or agree to sell any of the Offer Shares acquired by it in the course of the stabilizing action referred to in paragraphs (i) above in order to liquidate any position that has been established by such action; or
- (D) offer or attempt to do anything as described in paragraphs (ii)(A)(2), (ii)(B) or (ii)(C) above.

The Stabilizing Manager or any person acting for it may, in connection with the stabilizing action, maintain a long position in the Offer Shares, and there is no certainty as to the extent to which and the time period for which it will maintain such a position. Investors should be warned of the possible impact of any liquidation of the long position by the Stabilizing Manager or any person acting for it and selling in the open market, which may include a decline in the market price of the Offer Shares.

Stabilization cannot be used to support the price of the Offer Shares for longer than the stabilization period, which begins on the day on which trading of the Offer Shares commences on the Stock Exchange and ends on the 30th day after the last day for lodging of applications under the Hong Kong Public Offering. The stabilization period is expected to expire on July 29, 2011. After this date, when no further stabilizing action may be taken, demand for the Shares, and therefore their market price, could fall.

Any stabilizing action taken by the Stabilizing Manager or any person acting for it, may not necessarily result in the market price of the Shares staying at or above the Offer Price either during or after the stabilization period. Stabilizing bids or market purchases affected in the course of the stabilization action may be made at any price at or below the Offer Price and can therefore be done at a price below the price the investor has paid in acquiring the Offer Shares.

In connection with the Global Offering, the Stabilizing Manager may over-allocate up to and not more than an aggregate of 43,650,000 additional Shares, representing approximately 15% of the Offer Shares initially available under the Global Offering, 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 through stock borrowing arrangements or a combination of these means. In particular, for the purpose of covering such over-allocations, the Stabilizing Manager may borrow up to 43,650,000 Shares from Keen Vast, equivalent to the maximum number of Shares to be issued on a full exercise of the Over-allotment Option, under a stock borrowing agreement.

PROCEDURE FOR APPLICATION FOR HONG KONG OFFER SHARES

The procedure for applying for Hong Kong Offer Shares is set out in the section headed “How to Apply for Hong Kong Offer Shares” in this prospectus and on the relevant Application Forms.

STRUCTURE OF THE GLOBAL OFFERING

Details of the structure of the Hong Kong Public Offering, the International Offering and the Global Offering, including its conditions, are set out in the section headed “Structure of the Global Offering” in this prospectus.

INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

EXCHANGE RATE CONVERSION

For the purpose of illustration only and unless otherwise specified in this prospectus, the translations of Renminbi into U.S. dollars and of Hong Kong dollars into U.S. dollars have been made at the rates of RMB6.5483 to US\$1.00 and HK\$7.7750 to US\$1.00, the noon buying rates in New York City for cable transfers as certified for customs purposes by the Federal Reserve Bank of New York on March 31, 2011, respectively, and the translation of Renminbi into Hong Kong dollars has been made at the rate of RMB0.8423 to HK\$1.00, the exchange rate set by PBOC for foreign exchange transactions prevailing on March 31, 2011. No representation is made that (i) Renminbi amounts could have been, or could be, converted into U.S. dollars; (ii) that Hong Kong dollars could have been, or could be, converted into U.S. dollars; or (iii) the Renminbi amounts could have been, or could be, converted into Hong Kong dollars at such rates or at any other rate on such date or on any other date.

ROUNDING

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

DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

DIRECTORS

<u>Name</u>	<u>Address</u>	<u>Nationality</u>
<i>Executive Directors</i>		
TSUI Cham To (徐湛滔)	No. 16, Kangning 3rd Street Kangning Villa District Guangzhou, PRC	Chinese
LU Yili (盧已立)	Building 32 No. 2001 No. 81 Xian Lie Zhong Rd. Guangzhou, PRC	Singaporean
XU Ju Wen (徐炬文)	Room 36, Gangtou Avenue Xidingfang, Xizhou Village Xintang Town, Zengcheng City Guangdong Province PRC	Chinese
XU Shu Biao (徐樹標)	Room 1, Nan Street 1st Avenue Xidingfang, Xizhou Village Xintang Town, Zengcheng City Guangdong Province PRC	Chinese
XU Zi Tao (徐子滔)	Room 15, Nan Street 2nd Avenue Xidingfang, Xizhou Village Xintang Town, Zengcheng City Guangdong Province PRC	Chinese
<i>Independent non-executive Directors</i>		
LIU Yung Chau (廖榕就)	No. 80 — 86 Hak Po Street Argyle Street Kowloon, Hong Kong	Chinese
XU Zhen Cheng (許振成)	Room 501, No. 8 Area 7th Yuancun West Street Tianhe District Guangzhou PRC	Chinese
LAM Ka Wai, Graham (林家威)	Flat B, 5/F Bowen Place 11A Bowen Road Mid-Levels, Hong Kong	British

DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

PARTIES INVOLVED IN THE GLOBAL OFFERING

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

Hong Kong Public Offering
Citigroup Global Markets Asia Limited
50th Floor, Citibank Tower
Citibank Plaza
3 Garden Road, Central
Hong Kong

International Offering
Citigroup Global Markets Limited
33 Canada Square
Canary Wharf
London E14 5LB
United Kingdom

Auditors and Reporting Accountants

KPMG
Certified Public Accountants
8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong

Legal Advisors to our Company

As to Hong Kong and U.S. law:
Sidley Austin
Level 39, Two International Finance Centre
8 Finance Street
Central
Hong Kong

As to PRC law:
GFE Law Office
18th Floor, Guangdong Holdings Tower
No.555 DongFeng East Road
Guangzhou, PRC

As to Cayman Islands law:
Conyers Dill & Pearman
Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

**Legal Advisors to the Sole Sponsor
and the Underwriters**

As to Hong Kong and U.S. law:
Herbert Smith
23rd Floor, Gloucester Tower
15 Queen's Road Central
Hong Kong

DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

As to PRC law:

Commerce & Finance Law Offices
6/F, NCI Tower
A12 Jianguomenwai Avenue
Chaoyang District
Beijing 100022
PRC

Property Valuer

DTZ Debenham Tie Leung Limited
16th Floor
Jardine House
1 Connaught Place
Central
Hong Kong

Receiving Bankers

Standard Chartered Bank (Hong Kong) Limited
15th Floor, Standard Chartered Tower
388 Kwun Tong Road
Kwun Tong
Kowloon
Hong Kong

China Construction Bank (Asia) Corporation Limited
16/F York House
The Landmark
15 Queen's Road Central
Hong Kong

CORPORATE INFORMATION

Registered Office	Cricket Square, Hutchins Drive P.O. Box 2681 Grand Cayman, KY1-1111 Cayman Islands
Headquarters in the PRC	17/F, Best Centre Tower 321 Gangkou Road Xintang Town Zengcheng, Guangzhou China
Place of Business in Hong Kong	Room 1202B, 12/F Empire Centre 68 Mody Road Tsim Sha Tsui Kowloon, Hong Kong
Company's Website	www.chongto.com (information contained in this website does not form part of this prospectus)
Company Secretary	SIT Hon Wing <i>FCPA, FCCA</i>
Authorized Representatives	TSUI Cham To Flat 16, Kangning 3rd Street Kangning Villa District Guangzhou PRC LU Yili Building 32 No. 2001 No. 81 Xian Lie Zhong Road Guangzhou PRC
Audit Committee	LAM Ka Wai, Graham (chairman) LIU Yung Chau XU Zhen Cheng
Remuneration Committee	TSUI Cham To (chairman) LIU Yung Chau XU Zhen Cheng
Nomination Committee	LIU Yung Chau (chairman) LAM Ka Wai, Graham TSUI Cham To
Compliance Advisor	Platinum Securities Company Limited 22/F, Standard Chartered Bank Building 4 Des Voeux Road Central Central, Hong Kong

CORPORATE INFORMATION

Principal Share Registrar

Butterfield Fulcrum Group (Cayman) Limited
Butterfield House, 68 Fort Street
P.O. BOX 609
Grand Cayman KY1-1107
Cayman Islands

Hong Kong Share Registrar

Computershare Hong Kong Investor Services Limited
Shops 1712-1716
17th Floor, Hopewell Centre
183 Queen's Road East
Wanchai
Hong Kong

Principal Bankers**Hong Kong**

The Hong Kong and Shanghai Banking Corporation
Limited
Level 9 HSBC Main Building
1 Queen's Road Central
Central
Hong Kong

China

Industrial and Commercial Bank of China Ltd. (Xintang
branch in Guangzhou)
No. 159, Jiefangbei Road
Zengcheng Municipality
PRC

Bank of China Limited (Xingtang branch in Guangzhou)
No. 130, Jiefangbei Road
Zengcheng Municipality
PRC

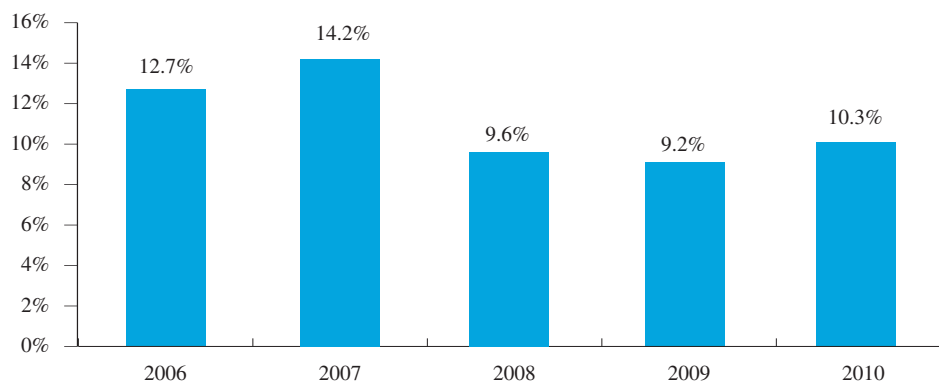
INDUSTRY OVERVIEW

Certain facts, information, statistics and data relating to China's economy and the industry in which we operate that are presented in this section and elsewhere in this prospectus are derived from publicly available government official sources (including various publications issued by PRC Government entities) as well as a report we commissioned from Ernst & Young (China) Advisory Ltd. ("Ernst & Young"), an independent third party. The information from official government publications and the Ernst & Young report (the "Ernst & Young Report") may not be consistent with the information compiled within or outside China. We believe that the sources of this information are appropriate sources for such information and have exercised reasonable care in extracting and reproducing such information. We have no reason to believe that such information is false or misleading or that any fact has been omitted that would render such information false or misleading. The information has not been independently verified by us nor by the Selling Shareholder, or any of our respective directors, officers, representatives or affiliates, the Sole Global Coordinator, Sole Bookrunner, Sole Sponsor and Sole Lead Manager, the Underwriters or any other party involved in the Global Offering and no representation is given as to its accuracy or correctness and accordingly it should not be unduly relied on. Unless otherwise indicated, all data in this section is derived from the Ernst & Young Report.

OVERVIEW OF CHINA'S ECONOMY

China's economy has enjoyed continuous and significant economic growth in the past decade. China's gross domestic product ("GDP") had experienced double-digit growth rate from 2004 to 2007, making China one of the fastest growing economies in the world. In 2008, despite the economic recession caused by the global financial crisis, China's real GDP grew at approximately 9.0%, compared to 2007. In 2009, China's GDP grew at approximately 8.7%, representing the fastest economic growth among the top 15 countries ranked by total GDP value. According to the 12th Five-Year Plan promulgated by the PRC Government, from 2011 to 2015 (the "12th Five-Year Plan period"), China's GDP is expected to experience a compound annual growth rate ("CAGR") of 7% to 7.5% on average. According to the State Council, during the 12th Five-Year Plan period, environmental protection will be an important objective of state policy together with maintaining economic growth.

The chart below sets out China's GDP growth from 2006 to 2010.



Source: National Bureau of Statistics of China

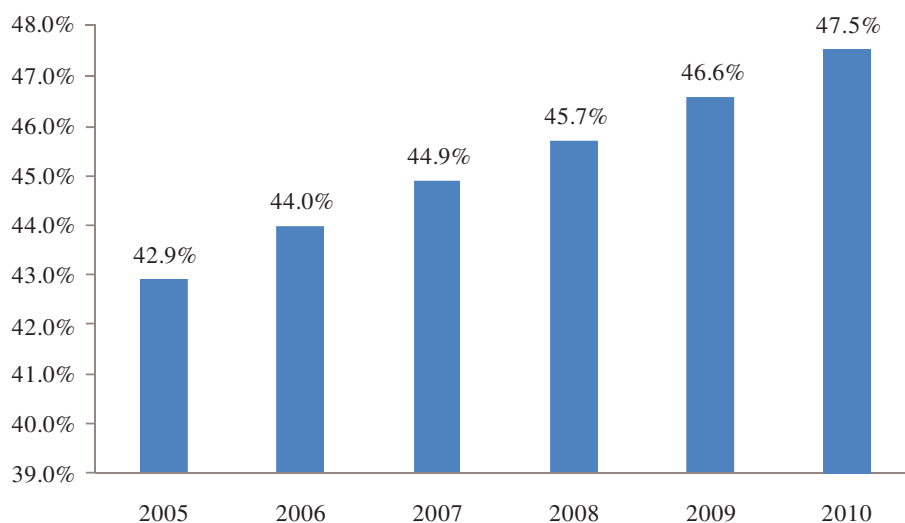
INDUSTRY OVERVIEW

Growth Drivers of China's Water Sector

Accelerating Urbanization

The level of urbanization has increased in China as a result of the country's rapid economic growth. Populations in cities have increased significantly with the influx of people from rural and less developed areas. From 2005 to 2010, the urbanization rate in China has increased approximately 4.6%. By the end of 2010, total urban population in China was approximately 630 million and urbanization rate reached approximately 47.5%. According to the Ernst & Young Report, it is expected that urbanization rate during the 12th Five-Year Plan period will exceed 50%. Continuous urbanization has led to rising demand for wastewater treatment and water supply services. Generally, urban areas have higher water demand per capita than rural areas. With the mass migration of people to major cities, many of which are in eastern China, the higher population density in coastal provinces have led to increased water consumption and aggravated imbalances between water supply and demand in such cities. In addition, urbanization drives higher demand for wastewater treatment capacity due to the concentration of industrial, residential and commercial activities in cities.

The chart below sets forth urbanization rates in China from 2005 to 2010.



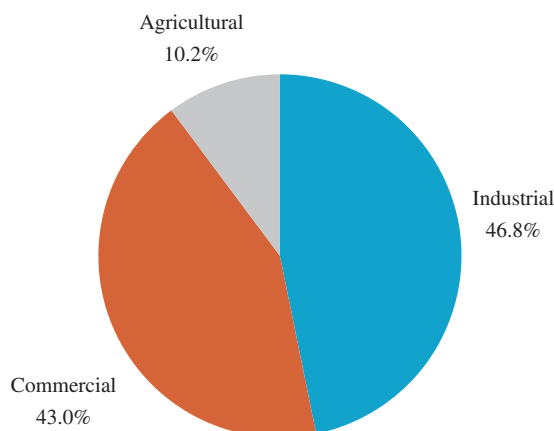
Source: Ernst & Young.

Increasing Industrialization

Industrialization is another major factor contributing to increased water consumption and wastewater discharge. The industrialization rate is generally evaluated by the percentage of the industrial output value in relation to the aggregate GDP value. In 2010, according to the Ernst & Young Report, the industrial sector accounted for approximately 46.8% of China's GDP and was the largest GDP contributor. Rising domestic consumption and the corresponding increase in infrastructure investment is expected to drive continued high output from water-consumptive industries such as steel, paper and textile. Continuous development of such water-consumptive industries is expected to drive up demand for industrial wastewater treatment and water supply in the future.

INDUSTRY OVERVIEW

The chart below illustrates the GDP contribution from different sectors in China in 2010.



Source: National Bureau of Statistics of China

Substantial Growth in Industrial Parks Development

In recent years, the PRC Government has encouraged industries in developed regions to shift to less developed regions, such as the central and western provinces, by establishing industrial parks or economic development zones. For example, the Guangdong government plans to relocate industrial parks from the Pearl River Delta to less developed regions in the province. In addition, the provincial governments of Hunan and Sichuan aim to attract industrial enterprises to shift from more developed regions in China to their respective provinces. In recent years, local governments have also increased public spending on infrastructure construction in their respective areas. Measures to promote the establishment of specialized industrial parks include favorable policies on financing, land use and education.

Currently, there are approximately 2,000 industrial parks in China, with more parks in the southern and eastern provinces and fewer in the western provinces. Specialized industrial parks usually attract manufacturers in the same industry to benefit from economies of scale. Typically, the local government will first invite leading players with key projects in a certain industry to set up sizeable facilities in the park, followed by other upstream and downstream players. Once a complete industrial value chain has been formed, the local government will seek to attract more industry players to establish production bases in the park, thereby forming an industry cluster to grow the region into an industry base.

Government's Investment in Environmental Protection

According to the Ernst & Young Report, the PRC Government has been increasing its support for as well as investment in the environmental protection sector during the past two decades. The Ministry of Water Resources ("MWR"), the Ministry of Environmental Protection ("MEP") and the National Development and Reform Commission ("NDRC") have issued circulars and guidelines on preventing environmental degradation and encouraging investment in the wastewater treatment industry. In January 2009, the State Council issued a circular "Reform and Development Plan of the Pearl River Delta," which stated that by 2012, the urban wastewater treatment rate should reach 80%, and 90% of the industrial wastewater discharged should satisfy relevant standards. The MWR will continue to increase water tariffs as existing tariff-determining systems do not reflect China's scarcity of water resources.

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According to the MEP, during the 12th Five-Year Plan period, China will invest RMB3.1 trillion in environmental protection and, by the end of the same period, all cities and counties should have a 100% wastewater treatment capacity. It is expected that the environmental protection industry will have a 15% to 20% annual growth rate and that industry size will be around RMB4.9 trillion during the 12th Five-Year Plan period.

The table below sets forth the environmental protection investment by the PRC Government in various periods.

Periods	Investment amount	% of GDP	Wastewater treatment investment
	RMB billion		RMB billion
“6th Five-Year Plan” (1981-1985)	15	0.5	NA
“7th Five-Year Plan” (1986-1990)	47.7	0.7	NA
“8th Five-Year Plan” (1991-1995)	130.7	0.9	NA
“9th Five-Year Plan” (1996-2000)	344.8	1.0	35.3
“10th Five-Year Plan” (2001-2005)	839.3	1.3	47.1
“11th Five-Year Plan” estimated (2006-2010)	1,375.0	1.5	114
“12th Five-Year Plan” estimated (2011-2015)	3,100.0	NA	NA

Source: Ernst & Young

1. The MEP did not provide any statistics on wastewater investment before 1995. The figures for 2009 and 2010 are estimated by Ernst & Young.

OVERVIEW OF CHINA’S WATER SECTOR

Shortage and Disparity of Water Resources

According to the World Bank Development Indicators 2010, China’s renewable internal freshwater resources per capita is less than a third of the global average. The availability of water resources is affected by droughts, floods and other environmental conditions.

According to the Ernst & Young Report, more than 400 of the 600 major cities in China suffer from water shortages. Water resource in a region is considered to have a minor water deficiency if the water resource per capita is below 3,000 tonnes, according to the China Digital Science and Technology Museum. Thirteen provinces in China have moderate water deficiencies with water resource per capita below 1,000 tonnes, while eight provinces or provincial level cities have severe water shortages with water resource per capita below 500 tonnes. Over 100 cities in China have experienced severe water shortages with total daily deficiencies amounting to 16 million tonnes.

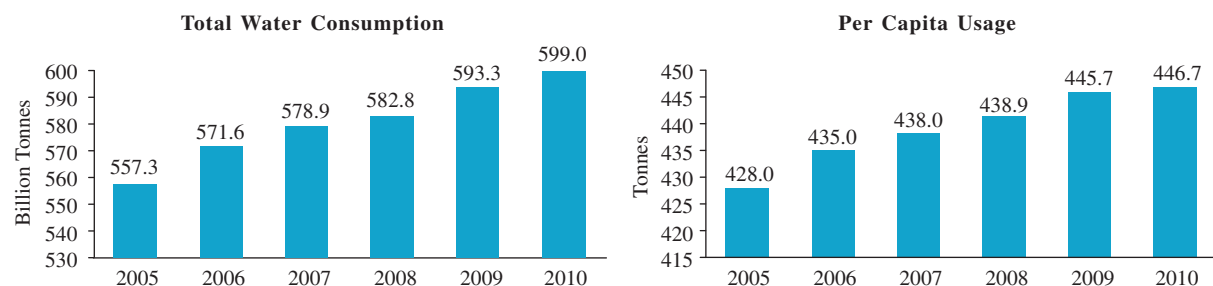
China’s water shortage is aggravated by regional disparity in water resources. According to the Ministry of Land and Resources, the region south of the Yangtze River occupies approximately 36.5% of the total land mass but holds approximately 81% of all water resources in China. In addition, China’s weather conditions and regional climate characteristics such as monsoon, precipitation in water-abundant areas and drought in water-deficient areas also exacerbate the geographical imbalance in water resources. As such, due to scarcity and regional disparity of water resources, water demand in some areas in China may outstrip water supply.

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Water Demand

Total water consumption in China grew from approximately 557.3 billion tonnes in 2005 to approximately 599.0 billion tonnes in 2010, representing a CAGR of approximately 1.5% while water consumption per capita grew at a CAGR of approximately 0.9% during the same period. Driven by population growth, urbanization and industrialization, residential and industrial water consumption in China is expected to continue to grow steadily from 2010 to 2015. With continuous economic growth in China, demand for water resources is expected to continue to rise.

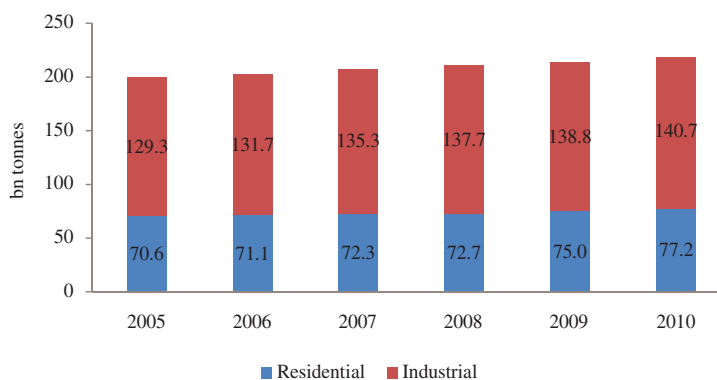
The chart below illustrates the total and per capita water consumption in China between 2005 and 2010.



Source: Ernst & Young

Historically, fresh water consumption in China has been characterized by a high level of agricultural use. The growth of the agricultural sector, however, has been slowing in recent years due to urbanization and industrialization. On the other hand, residential and industrial water consumption has experienced fast and steady growth from approximately 70.6 billion tonnes and approximately 129.3 billion tonnes, respectively, in 2005, to approximately 77.2 billion tonnes and approximately 140.7 billion tonnes, respectively, in 2010, with a CAGR of approximately 1.8% and approximately 1.7%, respectively, over the same period.

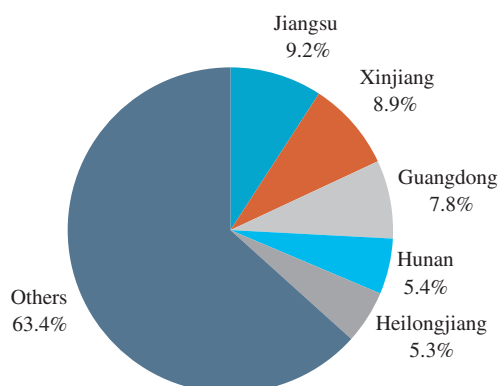
The chart below sets forth residential and industrial water consumption in China from 2005 to 2010.



Source: Ernst & Young

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The chart below illustrates the top five provinces in China in terms of water consumption in 2009. Guangdong province and Hunan province are the third and fourth largest water-consuming provinces, respectively.

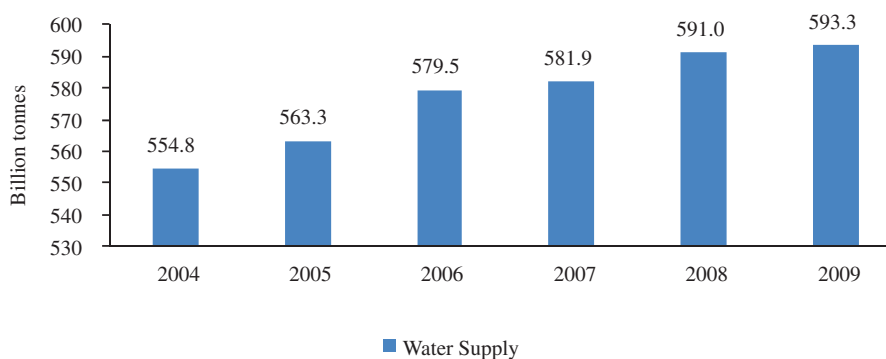


Source: Based on Ernst & Young estimates

Water Supply

Over the past six decades, China increased its water supply by nearly five times by expanding water supply facilities in cities and towns. In 2009, water supply in China reached approximately 593.3 billion tonnes, representing a CAGR of approximately 1.4% since 2004. However, water consumption remains constrained by water supply, as water supply companies have not been able to increase supply adequately to meet demand due to shortage of resources or capacity constraints. Furthermore, increases in water supply require government approvals.

The chart below sets forth the water supply in China from 2004 to 2009.



Source: Ernst & Young

Water supply is expected to continue to be outstripped by water consumption in the near future, with total water demand forecast to grow at a CAGR of approximately 1.8% from approximately 593 billion tonnes in 2009 to approximately 725 billion tonnes in 2020.

Water Wastage and Pollution Further Exacerbate the Water Supply Shortage Problem

Water wastage and pollution are prevalent in China, exacerbating the water shortage problem. The Ernst & Young Report estimated that only one third of agricultural water in China was fully utilized with the rest wasted in transportation and inefficient irrigation. Water pollution also poses a

INDUSTRY OVERVIEW

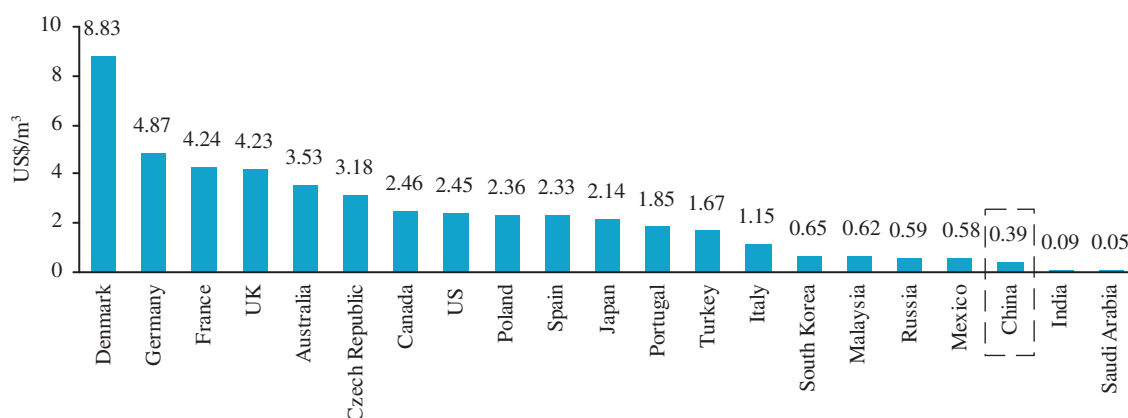
threat to fresh water supply in China. China is the largest wastewater discharging country, with a discharging volume tripling that of the United States. Most pollutants are from wastewater or discharges from chemical factories. Other sources of contamination include pesticide residue and organic pollutants. In November 2009, the MWR estimated that approximately 270 million people in rural China were drinking unsafe water, while 80% of diseases in the countryside were directly connected to poor water sanitation. Water pollution by bacteria overflow resulting from poor water treatment is a major cause of China's unsafe water problem, according to an investigation by the Ministry of Health ("MOH").

Recent Water Tariff Hikes

According to the Progress Report on Price Reform in Energy and Resources Product issued by the NDRC in August 2009, as referenced in the Ernst & Young Report, the average water tariff for industrial users in 36 major cities was RMB3.19 per tonne by the end of 2008. China's current water tariff is still much lower than those of many developed countries. According to the Ernst & Young Report, the average combined water and wastewater tariff in China was US\$0.39 per tonne, which is only 20% of the world's average.

Tariff control in China remains a challenge to companies operating in the water sector as they have limited flexibility in adjusting the prices of their services that will fully reflect increases in operating costs.

The chart below illustrates the average combined water tariffs in selected countries.



Source: Ernst & Young

In July 2009, the NDRC and the Ministry of Construction jointly issued the Circular on the Management of Urban Water Tariff, which demonstrated the PRC Government's determination to increase water tariffs. In January 2009, Guangzhou increased its water tariff for the first time in several years and water tariff in Tianjin was raised by 20% during 2009. In order to enhance the development of the water sector and to improve the country's water supply quality, the government is expected to continue increasing water tariffs in the coming years. For example, Beijing is expected to increase its water tariff by 24% from 2010 while Shenzhen plans to increase its water tariff by 30% in 2010.

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Competitive Landscape

The water sector in China is fragmented. According to China Water Industry Development Statistics, in 2009, China had over 1,800 enterprises engaged in the water sector (including wastewater treatment and water supply businesses). The water supply industry in China was historically run by the PRC Government while the wastewater treatment industry was historically run by state-owned companies. In the 1990's, the PRC Government started to open the water supply sector to private and foreign investment. Since 2000, the PRC Government has also opened the wastewater treatment industry to private competition.

CHINA'S WASTEWATER TREATMENT INDUSTRY

The PRC Government grants franchising rights to urban wastewater treatment enterprises. Industry players include public and private companies, state-owned enterprises and government affiliates. For domestic players, state-owned water companies play a vital role in water supply and wastewater treatment. Active non-state-owned players have also shown strong growth momentum in the past few years.

Wastewater Treatment Operating Modes

Wastewater treatment is usually conducted by means of either a BOO or BOT project.

The table below illustrates some of the differences between a BOT and a BOO project.

	<u>BOT (Build-Operate-Transfer)</u>	<u>BOO (Build-Own-Operate)</u>
Definition	<ul style="list-style-type: none">• The government or the industry player grants the operational right to a project company, which is responsible for financing, designing, constructing, operating and managing the project for a specified period pursuant to a concession agreement.• The ownership of the project facility will be transferred to the government or other specified party at the end of the concession period, often at no cost.	<ul style="list-style-type: none">• The project company is responsible for financing, designing, constructing operating and managing the project, and it owns and operates the facility independently and retains all of the surplus operating revenue in perpetuity.

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	BOT (Build-Operate-Transfer)	BOO (Build-Own-Operate)
Process	<ul style="list-style-type: none"> • BOT is generally adopted in both municipal and industrial wastewater treatment projects. • BOT projects are carried out by an open bidding process. • Project company receives a stable return on its investment during the concession period to cover its initial investment costs as well as operation and maintenance fees by receiving periodic payments from the government or the industry player for the wastewater treatment services. • The wastewater treatment fee is determined by a pricing formula consisting of factors such as interest rates and utility prices. • Cost factors are generally reviewed every two or three years or as designated in the concession contract. If costs have exceeded the designated range, the project company has the right to request the payment to increase correspondingly subject to the government's approval. 	<ul style="list-style-type: none"> • BOO projects are more popular in industrial wastewater treatment and solid waste treatment. • Industrial wastewater treatment in industrial park construction projects may also adopt the BOO mode due to local governments not having sufficient capital to invest in treatment facilities. • The government has less financing involvement than under the BOT mode. Although the government does not provide direct funding, it may offer other financial incentives such as tax reduction or tax holidays. • The project company may be in charge of purchasing land usage rights and establishing the infrastructure.

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	BOT (Build-Operate-Transfer)	BOO (Build-Own-Operate)
Comparison of profitability, return on investment and growth potential	<ul style="list-style-type: none"> • As tariff for municipal wastewater treatment is set by the government and any adjustment may have to go through a public hearing process, the BOT project company can only earn an average profit and return on its investment. • The government usually guarantees a minimum wastewater discharge volume in the concession contracts and is responsible for sludge treatment. • The government typically does not control the industrial wastewater tariffs as closely as municipal wastewater tariffs, therefore, industrial wastewater treatment is usually more profitable. • Growth is driven by urbanization and the government's increasing promotion of environmental protection policies. 	<ul style="list-style-type: none"> • A BOO project company engaging in industrial wastewater treatment services can generally earn a higher profit as it can negotiate the wastewater treatment tariff individually with each industrial end-user. The government typically does not control the industrial wastewater tariffs as closely as municipal wastewater tariffs, therefore, industrial wastewater treatment is usually more profitable. • Return on equity on average is higher than BOT. • Growth is primarily driven by industrialization as well as the government's policy on reducing industrial pollution.

The table below illustrates the advantages and challenges facing both a BOT project and a BOO project:

Advantages of BOT and BOO projects	<ul style="list-style-type: none"> • Centralized operation by the BOT and BOO project companies increases operation efficiency. • The project company can garner stable turnover compared with construction or engineering services as the operation period spans over 15 to 30 years. • Due to the long operation period, the project company has higher motivation to adopt advanced technologies to ensure stable effluent quality and maintain a low operation cost. • As environmental standards are becoming stricter, the project company has a better chance of coping with the enhanced requirements than the end-user due to its higher R&D capabilities to initiate and implement required technologies with lower costs.
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- Challenges facing BOT and BOO projects**
- The project company is exposed to financing risks as a large sum of capital is required at the start up of the project and only gets paid back after a long period.
 - Risks of return may arise due to shrinking of potential market.
 - Construction and design techniques adopted by the operator may become outdated and the project operator is required to constantly upgrade its facilities to maintain competitiveness.
 - Centralized operation by the project company adds to the complexity of management and implementation.

Wastewater Treatment Technologies

Wastewater treatment involves physical, chemical and biological processes to remove suspended substances and reduce the COD, BOD, phosphorus and nitrogen levels. Different techniques can be combined to maximize treatment effect. These wastewater treatment processes are being widely used in both municipal and industrial wastewater treatment. The first stage of treatment usually involves a physical process that includes settling. The second stage involves biological treatment, where activated sludge treatment and membrane technology may be adopted to reduce COD and BOD levels. The third stage refers to advanced treatment, which may involve phosphorus and nitrogen removal, coagulating sedimentation, sand filtration, carbon absorption, electric charge accumulation and ion exchange.

Activated sludge technology is a process for treating wastewater using air and biological flocculent composing of bacteria and protozoa. The general arrangement of an activated sludge process for removing pollutants includes: (i) pretreatment, (ii) aeration tank where oxygen is injected into the mixed liquid; (iii) settling tank to allow the biological flocculents to settle, thus separating the biological sludge from the clear treated water, and (iv) treatment of nitrogenous matter or phosphate, which involves additional steps where the mixed liquid is left in anoxic condition. As conventional activated sludge method may discharge a large amount of sludge containing various pollutants, the current technology trend is to use an anaerobic process to compress the sludge generated. Another wastewater treatment technique is the membrane technology. Major applications of membrane technology include the Membrane Bioreactor and Reverse Osmosis (“RO”), in which water produced under the RO membrane process can satisfy World Trade Organization’s quality requirement for drinking water.

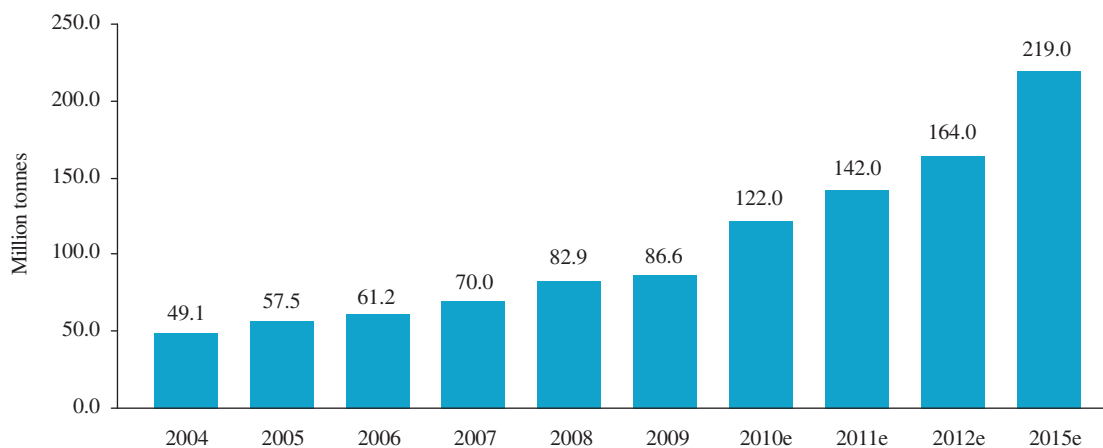
The wastewater treatment industry in China mainly adopts techniques such as the oxidation ditch technique, traditional activated sludge treatment, hydrolysis-aerobic process and biological aerated filters process. Each of these wastewater treatment technologies has its own characteristics and application period. For example, the hydrolysis-aerobic biological process has been in application since the early 1980’s and can operate effectively even under very low temperature, generally producing steady outcome of sludge and water. To date, this technology has been applied by hundreds of wastewater treatment plants.

China’s Wastewater Treatment Capacity

By the end of September 2010, the total number of wastewater treatment plants in China reached 2,630 with total daily treatment capacity of 122 million tonnes. Furthermore, there were 1,849 wastewater treatment plants under construction at the end of September 2010, which have total daily treatment capacity of 49 million tonnes.

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The chart below illustrates China's total daily wastewater treatment capacity between 2004 and 2015.



Source: Ernst & Young

It is estimated that during the 12th Five-Year Plan period, 379 cities, which is more than 57% of all cities in China, will need to establish wastewater treatment facilities. Furthermore, the government has also encouraged the installation of wastewater treatment capacities in major towns, of which there are approximately 10,000 in total in China. As such, there is significant growth potential in China's wastewater treatment industry.

Industry Entry Barriers

Entry barriers in the wastewater treatment industry include the industry participants' financial strength, technological know-how, relationship with key stakeholders as well as the quality of services they are able to provide. The wastewater treatment industry is capital intensive. In general, it is much easier for medium to large players with good financial strength to win bids for wastewater treatment projects, as they are able to afford the start-up cost and can obtain financing from banks or the government more easily. According to the Ernst & Young Report, the pay-back period for BOT projects in municipal wastewater treatment ranges from 15 to 30 years, while the pay-back period for industrial wastewater treatment projects is generally shorter, averaging at 7 years. Wastewater treatment plant operators also need strong technological capabilities as water discharge standards stipulated by the government have become increasingly stringent. According to the Measures for the License Administration of Qualification for Operation of Environmental Pollution Control Facilities, designers, builders and operators of wastewater treatment plants are required to attain certification (with Grade of A, B, or C) that grant the operator the rights to perform at different levels. For example, industries such as petrochemical, coking or power, require more complex treatment technologies and only companies with Grade A design certificate can provide wastewater treatment services to such industries. In municipal wastewater projects, relationships with the local government play a vital role in winning the tender as well as in subsequent operations. A good relationship with the local government often enables a player to better understand the government's requirements, and hence a higher chance to win the contract.

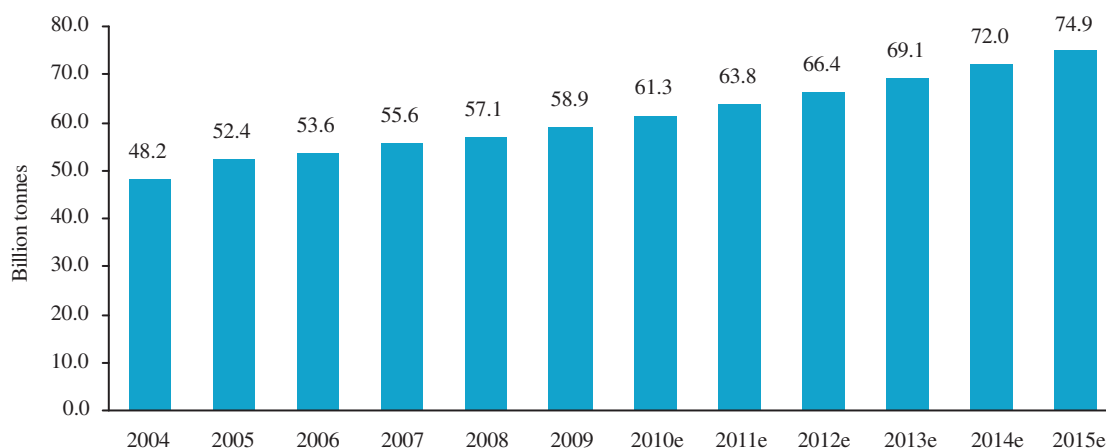
Future Outlook

According to the Ernst & Young Report, the wastewater treatment market in 2007 was approximately RMB21.3 billion and is estimated to reach RMB75.5 billion by 2015, representing a CAGR of approximately 17%. The market size is estimated by multiplying treated wastewater volume

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by average wastewater tariff. The total volume of wastewater discharged and wastewater treated was approximately 55.6 billion tonnes and approximately 32.8 billion tonnes in 2007, respectively. According to the Ernst & Young Report, it is estimated that in 2015, the total volume of wastewater discharged will be approximately 74.9 billion tonnes, of which approximately 61.6 billion tonnes will be treated. The difference between discharged and treated volume implies the growth potential of demand for wastewater treatment services in China.

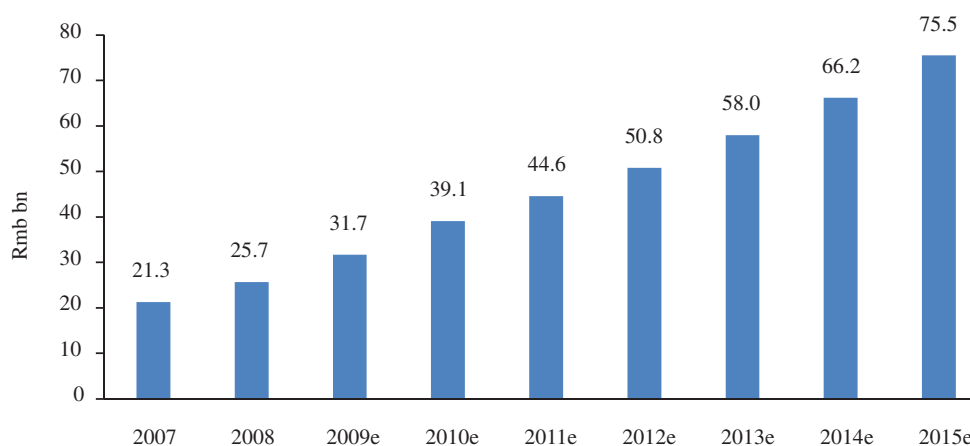
The chart below illustrates the total volume of wastewater discharged in China between 2004 and 2009, as well as the estimated and forecast total discharge volume between 2010 and 2015.



Source: Ernst & Young

By the end of September 2010, the total number of wastewater treatment plants in China reached 2,630 with total daily treatment capacity of 122 million tonnes. Industrial and municipal wastewater discharged grew at a CAGR of approximately 1.1% and 5.7%, respectively from 2004 to 2009. According to the Ernst & Young Report, the MWR estimated that during the 12th Five-Year Plan period, 379 cities will need to set up wastewater treatment facilities and major towns should install wastewater treatment facilities. Since China has more than 10,000 major towns, there is high growth potential in China's wastewater treatment market.

The chart below sets forth the historical and forecast wastewater treatment market size in China from 2007 to 2015.



Source: Ernst & Young

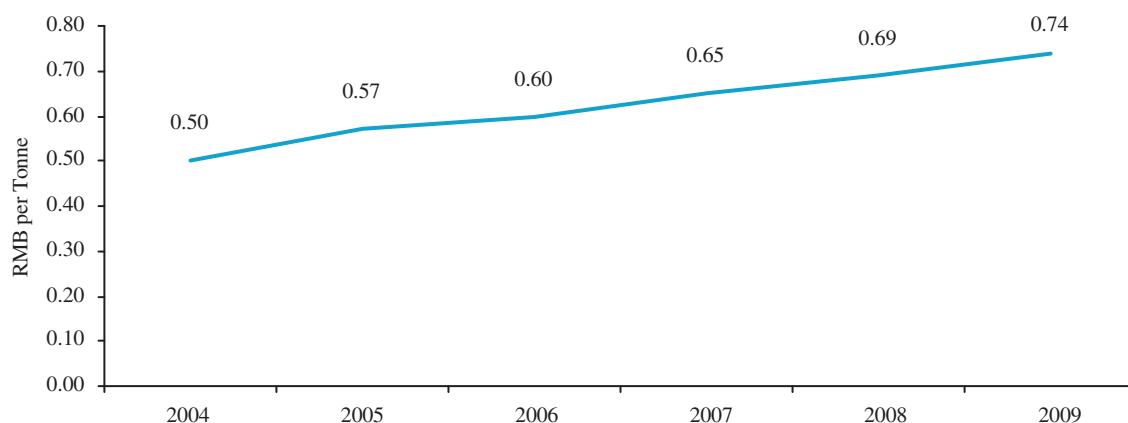
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Tariff Increase

According to the Ernst & Young Report, both municipal and industrial wastewater treatment tariffs have been increasing in the past few years and are expected to continue rising in the future. Major cities in Guangdong, Hunan, Sichuan and other provinces have witnessed tariff increases in recent years.

From 2004 to 2009, the average municipal wastewater treatment tariff in China had increased from RMB0.50 per tonne to RMB0.74 per tonne, representing a CAGR of approximately 8.2%. In 2007, the Ministry of Construction stated that the municipal wastewater treatment tariff should not be lower than RMB0.80 per tonne, which was higher than the actual municipal tariffs in the 36 major cities in China. The minimum tariff of RMB0.80 per tonne set by the Ministry of Construction in 2007 was the target of the governmental guidelines to be achieved over time. The government usually allows for some time before such target tariff is met.

The chart below sets out the average municipal wastewater treatment tariff in 36 major cities in China.



Source: Ernst & Young

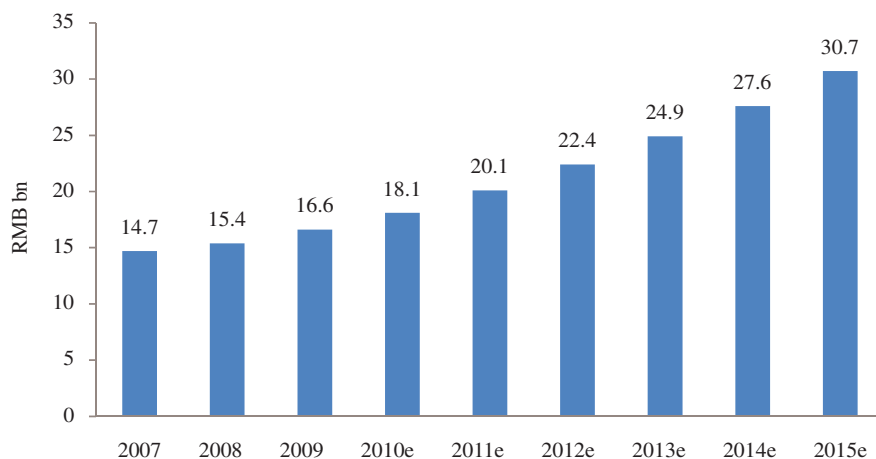
Wastewater tariffs are expected to continue increasing in the coming years given the rising costs of wastewater treatment materials, energy and labor, together with the constant requirements to upgrade the treatment system resulting from increasing technical standards.

CHINA'S INDUSTRIAL WASTEWATER TREATMENT INDUSTRY

According to the Ernst & Young Report, the industrial wastewater treatment market size was estimated to be RMB18.1 billion in 2010 and is expected to reach approximately RMB30.7 billion in 2015, representing a CAGR of approximately 11.0%. The industrial wastewater treatment market size is estimated by multiplying treated wastewater volume by average wastewater tariff. Increases in wastewater tariff are expected to drive the industrial wastewater treatment market.

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The table below sets forth the trend and estimated growth in the size of the industrial wastewater treatment market from 2007 to 2015.

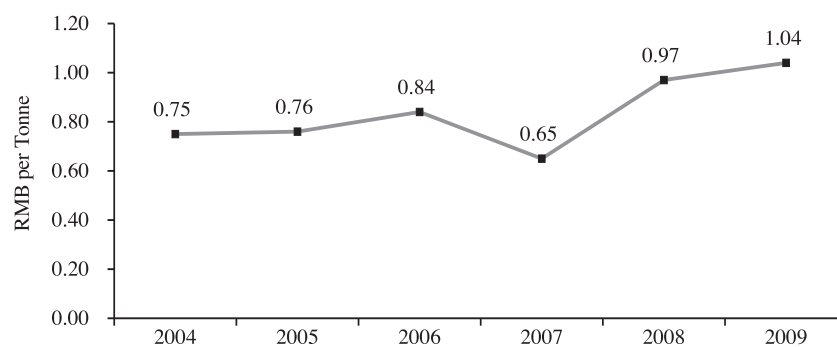


Source: Ernst & Young

Pricing Trend

Compared to municipal wastewater treatment tariffs, industrial wastewater treatment tariffs are subject to more fluctuation as it is closely related to the prospects of the industry that the wastewater treatment plant serves. Increases in industrial wastewater treatment tariffs have been observed in many cities in China. For example, Huaihua increased its industrial wastewater treatment tariff from RMB0.20 to RMB0.85 per tonne from 2007 to 2009. Guangyuan increased its industrial wastewater treatment tariff in April 2010 to above RMB1.20 per tonne. According to the Ernst & Young Report, Industrial wastewater treatment tariff has also increased in Changsha, Guangzhou and Shanghai from 2004 to 2009 by approximately 340%, 120% and 50%, respectively; meanwhile, industrial wastewater treatment tariffs in China are expected to continue rising in the future.

The chart below illustrates the industrial wastewater treatment tariffs for industrial users in 23 selected cities, between 2004 and 2009.



Source: Ernst & Young

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Competitive Landscape

The industrial wastewater treatment industry has been expanding in the past decade. Industrial wastewater treatment players in China include both state-owned enterprises and private companies. State-owned enterprises are a major force in the industrial wastewater treatment industry, as they run wastewater treatment services on administration order from the government. State-owned enterprises generally have several business lines other than industrial wastewater treatment while private companies usually take industrial wastewater treatment as their main business.

Growth Outlook and Drivers

According to the Ernst & Young Report, the industrial wastewater treatment industry is expected to grow at a CAGR of approximately 10% from 2007 to 2015. The growth outlook of the industrial wastewater treatment industry will continue to be affected by various factors, such as government investment, growth of industries including textile and pulp and paper-making, as well as the government's encouragement of industries shifting from developed to developing areas.

Government investment and policy support

The industrial wastewater treatment industry is being driven in part by government investment to improve environmental quality, stricter water standards and facility upgrade requirements. According to the Ministry of Construction, the PRC Government will invest RMB3.1 trillion on environmental protection from 2011 to 2015, and the wastewater treatment rate may continue to grow and reach the government's target growth rate of 90% in 2020. Furthermore, the PRC Government will grant subsidies to wastewater treatment projects and investments in pipeline construction.

The PRC Government is also expected to set higher hygiene standards and stricter requirements on water quality, which means that demand for advanced wastewater treatment will increase. Furthermore, as with the recent tariff increases in many cities such as Beijing, Shanghai and Guangzhou, more industrial enterprises are willing to set up or upgrade their wastewater treatment facilities since recycling wastewater can exempt them from wastewater tariffs. As wastewater is turned into recycled water after advanced treatment, which can in turn be sold as intermediate water, this generates extra turnover for the enterprise, which can partly offset the enterprise's wastewater treatment costs. As a result, demand for more advanced wastewater treatment facilities is likely to increase.

High level of output by manufacturing industries such as textile and pulp and paper

According to the Ernst & Young Report, from 2005 to 2008, output value of both the textile and paper industries grew at a CAGR of more than 20%. China is the largest textile manufacturer in the world with an estimated output value of RMB2,619 billion in 2009. Printing and dyeing (of textile products) ranked third in all industries in China in terms of wastewater discharge volume, with approximately 70% to 90% of water used in production being discharged as wastewater. In April 2010, the Ministry of Industry and Information Technology of China issued a circular to raise the entry barriers of the textile printing and dyeing industry. The circular required industry players to establish sound wastewater and solid waste treatment facilities to meet discharge standards. Pursuant to the circular, the volume of all reclaimed water should be over 35% of all water used.

The pulp and paper industry in China has ranked the highest of all industries in terms of wastewater discharge since 2002, with a total discharge volume reaching 4 billion tonnes in 2008. With the significant increase in output value and the large discharge volume, the PRC Government has been tightening the requirements and standards for wastewater discharge. In June 2008, the MEP and

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the General Administration of Quality Supervision, Inspection and Quarantine jointly released the National Water Pollutant Standard for the pulp and paper-making industry, which has tightened the requirements with respect to COD and BOD discharge level. Such a new standard is expected to push many existing manufacturers to improve their wastewater discharge treatment facilities.

Industrial policies encouraging industries to shift to developing areas

The PRC Government encourages industries to shift from developed to developing regions in the form of industrial parks or economic development zones. As a result of China's "Western Region Development" policies, some enterprises have started to move to industrial parks in the central and western provinces, where local governments have granted favorable policies including preferential tax treatment, low transfer cost of land usage rights, lower power tariff and comprehensive supporting facilities, in order to attract key manufacturers.

In the "Guidance of the Industries Shift to the Central and West Regions" issued by the State Council in September 2010, the PRC Government emphasized several policies on the industrial parks in central and western regions of China. For example, labor-intensive industries such as textile should be shifted to central and western regions. Such regions should improve its environmental infrastructure and should set up industrial parks to realize economies of scale. In addition, the government in such regions is to provide support in terms of financing, investment and land use.

Industrial Wastewater Treatment in Guangdong, Hunan and Sichuan Provinces

Guangdong Province

In 2005, the Guangdong provincial government issued the "Relocation and Transition of Industrial Parks in Guangdong" circular, which encouraged the shift of industrial parks from developed regions such as the Pearl River Delta to less developed regions such as the mountainous areas in the province. In 2008, the Guangdong government further proposed the second round of transition to establish industrial bases in less developed regions in Guangdong province for manufacturers to expand scale and lower labor costs. However, as the relocation of industrial parks also brought environmental pollution issues, the Guangdong government started to impose penalties, such as reduction or even withdrawal of government financing on enterprises that discharge pollution.

In Guangdong province, the volume of wastewater that was not treated by the discharging industries had decreased from approximately 2.3 billion tonnes in 2005 to approximately 1.9 billion tonnes in 2009. According to the Ernst & Young Report, industrial wastewater discharged from the Pearl River Delta represented over 70% of all industrial wastewater discharged in Guangdong province. By the end of 2009, Guangdong province had approximately 240 wastewater treatment plants in 67 cities and counties with total daily treatment capacity reaching approximately 13.5 million tonnes. Newly added wastewater treatment capacity in 2009 alone was approximately 2.2 million tonnes.

In Guangzhou, the volume of industrial wastewater discharged grew at a CAGR of approximately 11% from 2007 to 2009 and reached approximately 260.0 million tonnes in 2009. Huizhou is a second tier city in Guangdong province and its industrial sector has been growing rapidly. In recent years, the Huizhou government has accelerated the construction of wastewater treatment plants and pipelines, and the environmental protection department had shut down 42 heavily polluting enterprises in 2009. The government had also issued incentive policies including a RMB1.0 million subsidy to wastewater treatment plants for every 10,000 tonnes of wastewater treated. By the end of 2010, Huizhou had 33 municipal wastewater treatment plants with newly-added daily treatment capacities reaching 0.8 million tonnes.

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Hunan Province

Hunan province has experienced a rise in wastewater treatment rate in recent years, as well as a downward trend in the volume of industrial wastewater discharged from 1.2 billion tonnes in 2005 to 0.96 billion tonnes in 2009. The Hunan government launched a “Three-Year Plan” in 2008 to accelerate construction of wastewater treatment plants in the province. By September 2010, there were 130 wastewater plants with newly added daily treatment capacity totaling 3.8 million tonnes. The Hunan government also initiated a three-year Xiang River pollution treatment plan in 2008. Pursuant to this plan, over 1,377 projects were carried out in cities, including the establishment of municipal wastewater plants, household garbage landfill, building of industrial park wastewater treatment plants and pollutant treatment in the livestock-breeding industry.

The city governments of Changsha and Huaihua in Hunan province attach great importance to improving the wastewater treatment infrastructure. Prior to 2010, Changsha had two wastewater treatment plants with a treatment rate of approximately 48%. However, in 2010, five wastewater treatment plants were put into operation, which increased wastewater treatment rate to approximately 80%. In Huaihua, eight wastewater treatment plants were set up by the end of 2009 with total daily treatment capacity of approximately 0.2 million tonnes. In 2003, the local government together with a Singaporean investor established Huaihua Industrial Park, which mainly caters to paper, food and garment production. Currently, there are 19 manufacturing enterprises in the Huaihua Industrial Park.

Sichuan Province

In 2007, the Sichuan provincial government issued the “Guidance on Expediting the Development of Industrial Parks,” in which it pointed out that Sichuan should be the hometown to the industries that shift away from the eastern provinces. Pursuant to the guidance circular, the Sichuan government planned to establish 30 industrial parks with annual sales of over RMB5 billion, with total output value from industrial parks aimed at over 50% of total output value in the province.

The industrial wastewater discharge volume in Sichuan had decreased from approximately 2.3 billion tonnes in 2005 to approximately 1.1 billion tonnes in 2008, while urban wastewater treatment rate more than doubled from approximately 31% in 2005 to approximately 65% in 2008. The Sichuan government plans to have a daily wastewater treatment capacity of 3 million tonnes. By the end of 2010, the urban wastewater treatment rate has reached approximately 70%.

Local governments in Chengdu and Guangyuan cities have increased and are expected to continue their supports for wastewater treatment, in accordance with the provincial government’s direction. From 2007 to 2009, the Chengdu government invested RMB10.5 billion to set up 68 new wastewater treatment plants, reaching a total number of 106 treatment plants with total daily treatment capacity of 1.9 million tonnes. The Chengdu government will continue to establish wastewater treatment plants and pipeline networks in rural areas. By the end of 2010, wastewater treatment rates in counties and towns of Chengdu had increased to approximately 75% and approximately 60%, respectively. Guangyuan is a prefecture-level city, with more than 1,300 industrial enterprises and a GDP of RMB27.0 billion in 2009. The Sichuan government encourages private sectors to participate in the wastewater treatment industry to gradually replace the government’s significant involvement. As the government will closely monitor polluting industrial enterprises and impose heavy penalties on offenders, this is likely to create a higher demand for wastewater treatment in Sichuan.

Industrial Wastewater Treatment in Other Provinces

Other provinces in China, including Hubei, Shandong, Jiangxi, Jiangsu and Zhejiang, are also attracting industries from developed regions and promoting industry transformation and ecological production in industrial parks. For example, the Hubei government aims to promote the development of industry clusters and the formation of industry chains in industrial parks to attract manufacturers from eastern provinces, while the Shandong government has a goal to build “Ecological Industrial

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Parks” with a view of reducing pollution and realizing sustainable economic growth during the 12th Five-Year Plan period. The Jiangxi government indicates that it will set up more wastewater treatment plants in the industrial parks. During the 12th Five-Year Plan period, the Jiangxi government plans to speed up the construction of wastewater pipelines across the province, thereby increasing higher utilization rate and reducing COD emission. In addition, the Jiangsu government will continue to promote industry transformation in industrial parks demanding centralized treatment facilities. The Zhejiang government has also promoted the concept of ecological industrial parks and the development of recyclable economy and green manufacturing.

Regulatory Environment

The wastewater treatment industry is increasingly heavily regulated by the PRC Government through several ministries and governmental agencies such as the MWR, the Ministry of Housing and Urban-Rural Development (or “MHURD”, previously known as the Ministry of Construction), the MEP and the NDRC. In addition to national laws and regulations, local governments, including municipal and provincial governments, may issue specific implementation measures in line with national policies. For example, the PRC Government issues guidelines on wastewater tariffs, while local governments can decide their own tariff levels based on local conditions. These various laws and regulations have defined the business model and sources of turnover for players in the wastewater treatment industry.

In recent years, the PRC Government has implemented key policies on environmental protection and energy savings as well as announced a number of guidelines and regulations to promote environmental protection. Examples include the “Comprehensive Working Scheme on Energy Saving and Emission Reduction,” issued in May 2007, and the “Circular on the 12th Five-Year Plan Outline of Prevention and Control of Pollution in Major Rivers,” issued in November 2010.

The PRC Government has also imposed various standards to monitor the quality of wastewater treatment and water supply services. For example, the Urban Water Supply Standard, issued in 2005, set out the quality standards of water resources, water supply plant and pipelines. In addition, the revised Drinking Water Sanitary Standard (GB5749-2006), issued in 2007, set forth 106 quality standards for drinking water safety.

For the wastewater treatment industry, there are four tiers of standards imposed, which include national standards, ministry standards, industry standards and regional standards. National standards include the Integrated Wastewater Discharge Standards and the Discharge Standard of Pollutants for Municipal Waste Water Treatment Plant. Ministry standards include the Discharge Standard for Municipal Wastewater, stipulated by the Ministry of Construction. The industry specific standards on wastewater discharge apply to 12 specific industries, including paper, textile dyeing, steel and other industries. As the PRC Government has increasingly emphasized environmental protection in recent years, some major cities in China have started to implement stricter regional or local standards on wastewater treatment. For example, Shanghai has implemented its local Discharge Standard for Municipal Sewage System which is more comprehensive than standards imposed by the ministry. Tianjin and Liaoning have also implemented their regional wastewater treatment standards which are stricter than the national standard. Furthermore, the municipal government of Beijing has ordered wastewater treatment plants to upgrade their facilities to satisfy stricter water recycling standards. It is expected that many other provinces and cities in China will follow these examples and require local enterprises to improve the quality of treated wastewater.

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CHINA'S SLUDGE TREATMENT AND SOLID WASTE INCINERATION INDUSTRY

Sludge Treatment

Sludge is the by-product resulting from wastewater treatment and contains a large amount of nitrogen, phosphorus, potassium and organic ingredients as well as toxic and harmful components such as dioxins. Sludge treatment is a complicated process. Only less than 30% of wastewater treatment plants in cities in China can properly compress, stabilize and dehydrate sludge. According to data collected by Ernst & Young, over 56% of wastewater treatment plants do not have stabilization treatment and nearly 49% do not have a dehydration process. Sludge output volume is about 0.5% to 1% of the volume of treated wastewater, and it was estimated that the total output of sludge in China will exceed 46 million tonnes by the end of 2015 from 23 million tonnes in 2010. Untreated sludge can cause much pollution to the environment.

Only operators with industrial solid waste certificates under the operation certificate of environmental pollution treatment facility are allowed to conduct sludge treatment business. The sludge treatment companies are required to control the sludge quality and volume as well as manage the sludge dumping site. Size reduction is the basic requirement and the first step of the complicated treatment process, before sludge may be dried and incinerated. Another method is to solidify and stabilize the sludge by adding a firming agent and, through various physical and chemical reactions, harmful material will be hardened around the lattice formed and be turned into solid material like soil. This solid material can be recycled and used in other applications.

The issuance of new standards and government guidance will help to drive growth of China's sludge treatment industry. The Discharge Standard of Pollutants for Municipal Wastewater Treatment Plant sets forth the specific standard for sludge treatment while the Guideline on Available Technologies of Pollution Prevention and Control for Treatment and Disposal of Sludge from Municipal Wastewater Treatment Plant specifies that wastewater treatment fee should include sludge treatment costs. At the Beijing National People's Congress Standing Committee meeting in November 2010, the Committee required local governments to set up sludge treatment facilities and that sludge treatment should be included in Beijing's wastewater discharging plans. It was estimated that the total investment in sludge treatment will reach RMB150 billion during the 12th Five-Year Plan period, compared to RMB47.3 million during the 11th Five-Year Plan. According to the Ernst & Young Report, the sludge treatment industry is expected to expand along with stricter environmental protection requirements and the growth of wastewater treatment capacity. Techniques that can reduce sludge volume and stabilize sludge quality are a key research direction.

Solid Waste Incineration

According to the Ernst & Young Report, high growth opportunities for solid waste incineration are expected during the 12th Five-Year Plan period. In 2009, the total volume of solid waste in China was 160 million tonnes which generally includes sludge, waste and disposals from manufacturing, medical operations, and domestic garbage. Solid waste can be treated by landfill, incineration or other methods, with the incineration method having the advantage of space-saving. By the end of 2008, China had over 75 solid waste incineration power plants, over 51% of which are located in the provinces of Guangdong, Zhejiang and Jiangsu. According to the Ernst & Young Report, during the 11th Five-Year Plan period, investment in solid waste treatment reached RMB210 billion with a CAGR of approximately 18.5%. It is estimated that during the 12th Five-Year Plan period, investment in solid waste treatment will reach RMB800 billion. In November 2010, the MEP issued the Guideline on Strengthening the Prevention of the Dioxin Pollution, which specified that by 2015, an effective supervision mechanism will be set up to oversee the emission of dioxin from key industries. The PRC Government is expected to encourage the replacement of landfill with incineration from 2011 to 2015. This policy will likely drive the development of the solid waste incineration industries, including waste separation, incineration, tail gas clean-up and project management.

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REPORT COMMISSIONED FROM ERNST & YOUNG

We commissioned Ernst & Young (China) Advisory Ltd., an independent advisory firm with relevant industry experience, to conduct an analysis of, and to report on, the PRC wastewater and water supply industry. The report commissioned has been prepared by Ernst & Young independent of our influence. The estimated fee we paid to Ernst & Young was US\$67,000 plus out-of-pocket expenses and taxes which we consider as reflecting market rates. Ernst & Young is a professional services firm providing a broad array of services relating to audit and risk related services, tax and transactions. Its commercial advisory services include: commercial due diligence, market penetration and growth strategy, competitive analysis, market assessment, sourcing and distribution strategy and business plan review. Ernst & Young's clients in the wastewater and water supply industry within China include other domestic private wastewater and water supply enterprises.

The Ernst & Young Report we commissioned includes information related to the PRC wastewater and water supply industry, such as an overview of the industry, as well as PRC specific information including government regulations and initiatives with respect to wastewater treatment and water supply, statistics relating to water supply, water consumption, wastewater treatment and water tariff and future estimates and trends. Ernst & Young's independent research was undertaken through both primary and secondary research obtained from various public and private sources, as well as our management with respect to our market position. Secondary research involved reviewing company reports, independent research reports, data based on Ernst & Young's own research database and data from government publications and industry sources. Primary research involved interviewing leading industry participants, government officials, and our executives. Forecast data is based on historical growth rates as well as government announcements of planned investment in the wastewater treatment and water supply industry. The information from the Ernst & Young Report reflects estimates of market conditions based on samples, and is prepared primarily as a market research tool. Please refer to "Risk Factors — Risks Relating to the Global Offering — We cannot guarantee the accuracy of facts, forecasts, other statistics and information derived from various official government publications or obtained from the Ernst & Young Report with respect to China, the PRC economy and the PRC wastewater treatment and industrial water supply services industry contained in this prospectus."

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REGULATORY ENVIRONMENT

According to the Industries for Foreign Investment Guidance Catalog (2007 Revision) (《外商投資產業指導目錄(2007年修訂)》) promulgated by the MOFCOM and the NDRC, the wastewater treatment services industry and the construction and operation of urban water supply factories falls within the category of industries in which foreign investment is encouraged. Foreign investors may participate in the construction and operation of wastewater treatment projects within the PRC by means of establishment of joint ventures or wholly foreign owned enterprises.

PROJECT LEGAL PERSON SYSTEM

According to the Interim Provisions on Implementation of Construction Project Legal Person Responsibility System (《關於實行建設項目法人責任制的暫行規定》), promulgated and implemented by the NDRC on January 20, 1996, and the Interim Provisions of the Ministry of Construction on Utilization of Foreign Funds in Municipal Public Utilities (《建設部城市市政公用事業利用外資暫行規定》) promulgated and implemented on May 27, 2000, foreign-invested wastewater treatment projects and urban water supply projects should implement the project legal person responsibility system.

Under the project legal person responsibility system, the project legal person should be responsible for the entire process of the project, including planning, financing, construction implementation as well as maintenance, operation and debt repayment.

CAPITAL FUND SYSTEM

In accordance with the Notice of the State Council on Trial Implementation of Capital Fund System in Fixed Asset Investment Projects (《國務院關於固定資產投資項目試行資本金制度的通知》) promulgated and implemented by the State Council on August 23, 1996, the Opinion on Utilizing Foreign Funds in the Construction of Municipal Public Utilities (For Trial Implementations) (《關於城市市政公用設施建設利用外資工作的意見(試行)》) promulgated and implemented by the Ministry of Construction on May 20, 1997, the Notice of the State Council on Adjusting the Proportions of Capital Fund in Fixed Asset Investment Projects (《國務院關於調整固定資產投資項目資本金比例的通知》) promulgated and implemented by the State Council on May 25, 2009, and the Notice on Issuing Opinion about Advancing Industrialization of Urban Sewage and Garbage Treatment (《國家計委、建設部、國家環保總局關於印發推進城市污水、垃圾處理產業化發展意見的通知》) promulgated and implemented by the NDRC, the Ministry of Construction (currently the Ministry of Housing and Urban-Rural Development) and the State Environmental Protection Administration (currently the Ministry of Environmental Protection) on September 10, 2002, the capital fund system is adopted for fixed asset investment projects.

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

CONCESSION IN BOT PROJECTS

According to the Opinion on Accelerating the Marketization of Municipal Public Utilities Industry (《關於加快市政公用行業市場化進程的意見》) promulgated and implemented by the Ministry of Construction on December 27, 2002, the Measures for the Administration on the Concession of Municipal Public Utilities (《市政公用事業特許經營管理辦法》) promulgated by the Ministry of Construction on March 19, 2004 and implemented on May 1, 2004, and the Opinion of Ministry of Construction on Strengthening the Supervision of Municipal Public Utilities (《建設部關

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於加強市政公用事業監管的意見》) promulgated and implemented by the Ministry of Construction on September 10, 2005, the relevant regulations governing the grant of concession rights for municipal public utilities projects are applicable to wastewater treatment projects. Government authorities should select investors and operators of wastewater treatment projects through public bidding, and enter into concession agreements to grant concession rights for municipal public utilities projects.

Terms of the Concession Right and Pricing

According to the Measures for the Administration on the Concession of Municipal Public Utilities (《市政公用事業特許經營管理辦法》) and the Notice on Issuing Opinion about Advancing Industrialization of Urban Sewage and Garbage Treatment by the National Development and Planning Commission, the Ministry of Construction and the State Environmental Protection Administration (《國家計委、建設部、國家環保總局關於印發推進城市污水、垃圾處理產業化發展意見的通知》), the terms of the concession rights for municipal wastewater treatment project should not exceed 30 years. After the expiration of the term, governments shall re-select the concessionaire by public tender. The wastewater treatment service fee shall be determined according to the principle that the municipal wastewater treatment facilities operators should be able to recover their cost as well as making a reasonable profit.

WATER QUALITY

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

GOVERNMENT SUPERVISION PERTAINING TO BOT PROJECTS

According to the Measures for the Administration on the Concession of Municipal Public Utilities (《市政公用事業特許經營管理辦法》) and the Opinion of Ministry of Construction on Strengthening the Supervision of Municipal Public Utilities (《建設部關於加強市政公用事業監管的意見》), the government's supervision of operators of concession rights regarding wastewater treatment projects mainly includes the following:

A. Routine supervision

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

B. Mid-term assessment

During the course of project operation, the authorities in charge of supervising the municipal public utility operators shall organize experts to carry out mid-term assessment of the wastewater treatment facility operators' performance; such assessment cycle shall be carried out at least every two years. Under special circumstances, the government may carry out annual assessments.

C. Supervision of material matters

Unless it is otherwise authorized by the government in advance, wastewater treatment enterprises should not transfer or lease their concession rights, dispose or mortgage project assets in the concession period, shut down or wind up without permission. Where an enterprise to which concession

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rights have been granted intends to unilaterally terminate the concession agreement within the concession period, it shall apply to the supervisory authority in advance. Before such authority's approval of such cancellation, the relevant enterprise shall maintain its ordinary business and service.

D. Consequences of violations

In the event that an enterprise to which concession rights have been granted has any of the following conduct during the concession period, the supervisory authority shall terminate the concession agreement according to law and may temporarily takeover the enterprise:

- (1) Transfer or lease the concession right without authorization;
- (2) Dispose of or mortgage the assets operated by it without authorization;
- (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.

BIDDING AND TENDER OF BOT PROJECTS

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

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

To specify the requirements and procedures for bidding and tendering, the Provisions on Tender and Bidding of Exploration and Design Work for Engineering Projects (《工程建設項目勘察設計招標投標辦法》), the Provisions on Tender and Bidding of Construction Projects (《工程設計項目施工招標投標辦法》) and relevant specific provisions were promulgated, respectively.

QUALIFICATIONS FOR THE OPERATION OF ENVIRONMENTAL POLLUTION TREATMENT FACILITIES

According to the Measures for the License Administration of Qualification for Operation of Environmental Pollution Treatment Facilities (《環境污染治理設施運營資質許可管理辦法》) promulgated by the State Environmental Protection Administration on November 8, 2004 and implemented on December 10, 2004, the operator of environmental pollution treatment facilities shall apply for a Qualification Certificate for Operation of Environmental Pollution Treatment Facilities (環境污染治理設施運營資質證書) and shall conduct the business of operating environmental pollution treatment facilities according to the provisions of the qualification certificate. The

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Qualification Certificate for Operation of Environmental Pollution Treatment Facilities is classified into two levels by reference to the scope of business operation and the scale of pollutant disposal and treatment, namely Level A and Level B. Both levels of qualification for operation of environmental pollution treatment facilities are further sub-divided into different types by job categories such as municipal sewage, industrial wastewater, dust-removal and desulfurization, industrial exhaust gas, industrial solid waste (excluding hazardous waste), municipal rubbish, automatic continuous monitoring, etc. According to the Grading and Classification Standards for the Qualification for Operation of Environmental Pollution Treatment Facilities (For Trial Implementation) (《環境污染治理設施運營資質分級分類標準(試行)》) promulgated and implemented by the State Environmental Protection Administration on December 10, 2004, the application requirements for the Level A Qualification Certificate are higher than those for the Level B Qualification Certificate. In particular, to apply for the Level A Qualification Certificate, an applicant is required to (i) have no fewer than ten qualified technicians, with at least five of these technicians having a high level of expertise; and (ii) have registered capital of no less than RMB1.0 million if the applicant is engaged in the business of industrial wastewater treatment. Once the applicant obtains the Level A Qualification Certificate, it is eligible to undertake any business in connection with the operation of environmental pollution treatment facilities within the approved categories nationally. To apply for the Level B Qualification Certificate, an applicant is required to (i) have no fewer than six qualified technicians, with at least three technicians having a high level of expertise; and (ii) have registered capital of no less than RMB0.5 million if the applicant is engaged in the business of industrial wastewater treatment. Once the applicant obtains the Level B Qualification Certificate, it is eligible only to undertake business in connection with the operation of environmental pollution treatment facilities of certain scale and scope within the approved categories nationally.

WATER-DRAWING PERMIT

According to the Administrative Measures for Water-Drawing Permit and Water Resource Fee Collection (《取水許可和水資源費徵收管理條例》) promulgated by the State Council on January 24, 2006 and implemented on April 15, 2006, unless otherwise provided in the aforementioned administrative measures, any entity or individual that draws water for use shall apply for water-drawing permit and pay water resource fee. The entity or individual that applies to draw water shall file an application with the approving authority, and such application shall be subject to graded approval by competent local authority of water administration or hydrographic basin administration above county level. The validity term of water-drawing permit shall be generally five years, and shall not exceed ten years. Where the validity term expires and extension is needed, the entity or individual that draws water shall make a relevant application with the original approving authority. The entity or individual that draws water shall pay water resource fee and where more water is drawn than planned or prescribed, extra water resource fee shall be charged on the accumulative portion that exceeds the planned or prescribed amount. Where water is drawn without permission or not in compliance with the conditions of water-drawing permission, administrative penalty shall be imposed.

ENVIRONMENTAL PROTECTION

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

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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》) which came into effect on September 1, 2003, the PRC Government 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 analyzing or appraising the specific potential environmental impact is required; and if the construction project may result in very little impact on the environment, an environmental impact appraisal is not required but an environmental impact form shall be filed. The report for registration shall be approved by the relevant PRC authority before construction commences.

According to 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》), and the Regulation on the Implementation of the Law on the Prevention and Control of Water Pollution 《中華人民共和國水污染防治法實施細則》, the enterprise operating centralized treatment facilities of urban sewage shall obtain the Pollutants Discharge Permit (排污許可證). Except for the violation by Guangzhou Xintao of wastewater discharge standard and illegal untreated wastewater discharge in 2009, we have obtained all material environmental licenses and certificates in the PRC for each of our project's current stage and have in all material respects complied with the relevant environmental protection laws and regulations during the Track Record Period and up to the Latest Practicable Date.

POLLUTANTS DISCHARGE PERMIT AND QUOTA

The pollutant discharge quota shall be approved by the relevant environment protection authority at or above the county level. The PRC Government applies a system for controlling the total amount of pollutants discharged, such as COD and sulfur dioxide, based on relevant PRC laws and regulations such as the Law of the People's Republic of China on the Prevention and Control of Water Pollution (《中華人民共和國水污染防治法》) and Law of the People's Republic of China on the Prevention and Control of Atmospheric Pollution (《中華人民共和國大氣污染防治法》). The total amount of pollutants that can be discharged by each province is determined by the PRC Government. Based on such determination, each province allocates the pollutant discharge quota among cities and counties at its own discretion. In turn, each city or county then sets the pollutant discharge quota for each pollutant discharging unit under its jurisdiction. The quota type and the allocated quota of pollutants dischargeable by each unit are allocated at the time when the relevant environmental impact assessment is completed, which occurs before the commencement of construction, and are further restated in the Pollutants Discharge Permit. The Pollutants Discharge Permit is to be issued by the relevant environment protection authority at or above the county level.

The quota allocation and criteria for applying the Pollutants Discharge Permit are based on the regulations promulgated by the relevant environmental protection authorities at the provincial level. There are no national laws or regulations issued by the PRC Government governing the quota allocation and criteria for applying the Pollutants Discharge Permit. Generally, the procedures include: (i) application to the relevant environmental protection authority; (ii) review and validation of the application by the environmental protection authority to ensure that pollutants discharged by the applicant meet the requirements of discharge standard and conform to the local control policy of total amount of pollutants discharged; and (iii) issuance of the Pollutants Discharge Permit by the environmental protection authority.

In Guangdong province, an applicant for a Pollutants Discharge Permit must satisfy the following requirements: (i) the applicant must hold the legal qualification for the production and operation of the business in which it is engaged; (ii) the applicant must have its environmental impact assessment documentation examined and approved by the environment protection authority; (iii) the relevant project has passed the checking and acceptance required by the environmental protection

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authority; (iv) the pollutants to be discharged must meet the national and local regulated discharge standards and are within the relevant local limits of the total amount of pollutants discharged; (v) the applicant must comply with the requirements of national and local standards for pollution prevention and control facilities and pollution treatment capacity; in addition, for facilities that have been commissioned to operate, the operational unit should have obtained the relevant Qualification Certificate; (vi) the applicant should declare and complete the registration concerning the pollutants to be discharged; (vii) the applicant has set up contingency plans, including installation of the relevant facilities and equipment, concerning pollution incidents according to the relevant regulations; (viii) the applicant has set up discharge outlets according to the relevant standards and technical specifications; and (ix) the applicant has installed an on-line monitoring system for the relevant facility which is linked to the monitoring device network of the environmental protection authority.

In Hunan province, the application for a Pollutants Discharge Permit involves the following procedures: (i) the applicant must register with the relevant environmental protection administrative department and complete the "National Pollutant Discharge Declaration Registration Form," (ii) the environmental protection administrative department will inspect the applicant's facilities to determine the actual type of pollutants being discharged, the concentration, quantity and discharge methods and the destination of the discharged pollutants; (iii) the environmental protection administrative department will grant approval to the permitted type of pollutant discharge, its concentration, quantity and discharging methods and discharge destination according to the national and local pollutant discharge standards, environmental capacity and total pollutant control targets; and (iv) the applicant shall complete the application for the Pollutants Discharge Permit after completing the pollutant discharge declaration and registration. Upon receipt of such application, based on the results of its inspection, the environmental protection administrative department will issue or reject the Pollutants Discharge Permit within 15 working days.

The duration of the Pollutants Discharge Permit is to be decided by the issuance agency and ranges from one to five years. Prior to the expiration of the Pollutants Discharge Permit, the holder of the permit should apply to the issuance agency to obtain a new permit if it wishes to continue discharging pollutants. The original issuance agency has discretion in deciding whether or not to issue a new permit. There is no application fee.

There are no national laws or regulations issued by the PRC Government governing the trading or transfer of the pollutant discharge quota. At the provincial level, there have been policies or proposals set in place to allow pilot projects for pollutant discharge quota trading. For example, in January 2011, the government of Guangdong province proposed the implementation of the use and trading of pollutant discharge quota, allowing pollutant discharge quota to be transferred to other parties. In addition, on October 1, 2010, Hunan province implemented the Interim Implementation of Pollutant Discharge Right Usage and Trading (湖南省主要污染物排污權有償使用和交易管理暫行辦法), but such trading is only applicable to certain industries in certain cities, such as chemical, petrochemical, thermal power, steel, nonferrous metals, pharmaceutical, paper, food and construction material manufacturers located in the cities of Changsha, Zhuzhou and Xiangtan. The environmental protection authorities are entitled to reduce or cancel the pollutant discharge quota based on a number of factors, such as the adjustments of various discharging standards for pollutants, total pollutant discharging amount allocated or any new environmental protection laws and regulations promulgated with respect to pollutant discharge. The holder of a Pollutants Discharge Permit may have its permit revoked by the relevant environment protection authority if serious illegal discharge was committed. Wastewater treatment facilities can only discharge pollutants within the allocated quota. If the facility discharges pollutants without the quota or if it exceeds the allocated quota, a fine or an order to terminate the operation may be imposed on such facility.

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LAND USE RIGHTS AND CONSTRUCTION LAND PLANNING PERMIT

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

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

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

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

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

Construction Work Planning Permit. According to the Urban and Rural Planning Law, for construction work that was conducted in the city or town planning area, the construction entity shall apply to the competent administrative department or People's Government for a Construction Work Planning Permit. For construction work that proceeded without the Construction Work Planning Permit or in violation of the provisions of the Construction Work Planning Permit, the urban and rural planning administrative department at or above the county level can order the termination of such construction. If the impact on the planning caused by such construction can be eliminated, the department shall order such construction entity to make a correction within a prescribed time limit and pay a fine of not less than 5% of the construction cost but not more than 10% of such cost; if such

REGULATIONS

impact cannot be eliminated, the department shall order the construction entity to demolish such buildings or structures. For construction work that cannot be demolished, the department shall confiscate such buildings or structures or seize any illegal income and may also impose a fine not more than 10% of the construction cost.

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

Acceptance Checks. According to the Administrative Regulation of Construction Work Quality (《建設工程質量管理條例》) and the revised Administrative Measures for Recording of the Inspection and Acceptance on Construction Completion of Buildings and Municipal Infrastructures (《房屋建築和市政基礎設施工程竣工驗收備案管理辦法》) which entered into effect on October 19, 2009, a construction project shall not be delivered for use unless it has passed the acceptance checks. Where a construction entity illegally delivers the construction project for use without obtaining the acceptance checks or in circumstances where it failed to pass the acceptance checks, it shall be ordered to make corrections and also pay a fine of not less than 2% but not more than 4% of the contractual project price, and shall be obliged to pay compensation if any losses have been caused. The construction entity should file a record at the competent construction administrative department at or above the county level at the place where the project is located within 15 days from the day when the construction project passes the acceptance checks. If the construction entity fails to file such a record within the time limit, it shall be ordered to make corrections within a prescribed time limit and shall be fined not less than RMB200,000 but not more than RMB500,000.

TAXATION

Business Tax

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

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Value Added Tax

According to the Notice of Ministry of Finance and State Taxation Administration on Value Added Tax Policy of Comprehensive Utilization of Resources and Other Products (《財政部、國家稅務總局關於資源綜合利用及其他產品增值稅政策的通知》) promulgated by the Ministry of Finance and the State Administration of Taxation on December 9, 2008, the state exempts the wastewater treatment services from value added tax on condition that the water released after the wastewater treatment process satisfies the water quality standard set out in the Discharge Standard of Pollutants for Municipal Wastewater Treatment Plant (GB18918-2002) from January 1, 2009.

Enterprise Income Tax

According to the Enterprise Income Tax Law of the PRC (《中華人民共和國企業所得稅法》) promulgated on March 16, 2007 and effective on January 1, 2008 and the Implementation Rules on the Enterprise Income Tax Law of the PRC (《中華人民共和國企業所得稅法實施條例》) promulgated by the State Council on December 6, 2007 and effective on January 1, 2008, the income from environmental protection projects, or energy and water saving projects, which meet relevant requirements, shall be exempted from enterprise income tax for three years commencing from the first revenue-generating year of operations, and thereafter be entitled to a 50% reduction from enterprise income tax for the next three years. The specific conditions and scope of projects shall be jointly formulated by the competent department of finance and taxation of the State Council in collaboration with other relevant departments of the State Council and shall be publicized and implemented after being approved by the State Council.

HISTORY AND REORGANIZATION

OUR HISTORY

General

Our Company was incorporated in the Cayman Islands on November 30, 2010 and, as part of the Reorganization, became the holding company of our various subsidiaries. Prior to the incorporation of our Company and the completion of the Reorganization, our business was conducted by our operating subsidiaries in the PRC, namely Guangzhou Kaizhou and Guangzhou Xintao.

History

Our history can be traced back to 1999 when Xi Zhou Enterprises was established. In 2003, Guangzhou Kaizhou and Guangzhou Xintao were established in the PRC by Xi Zhou Enterprises as wholly foreign owned enterprises. Since our establishment, we have set up wastewater treatment plants in the Guangdong province and Hunan province. We have been providing wastewater treatment services in the PRC, as well as supplying water for industrial use in the PRC.

Since our establishment, we have received a number of awards and accolades. For details of our recent awards, please refer to the section headed “Business — Awards” in this prospectus.

Significant Milestones

The following highlights our significant development milestones:

- | | |
|------|--|
| 1999 | Xi Zhou Enterprises was incorporated. |
| 2003 | We commenced construction of Guangzhou Xinzhou Industrial Park Treatment Facility, our first wastewater treatment and water supply plant in Zengcheng city, Guangdong province (a location near the downstream of the Pearl River Delta) where enterprises engaged, amongst others, in textiles and dyeing industry. |
| 2005 | We completed construction and started operations of Guangzhou Xinzhou Industrial Park Treatment Facility (Phase I). |
| 2009 | We completed construction and started operations of Guangzhou Xinzhou Industrial Park Treatment Facility (Phase II). |
| 2010 | We acquired in aggregate 75% interest in Huaihua Tianyuan, expanding our services to areas outside of Guangdong province, and serving industries other than textiles. |
- Yonghe Haitao Wastewater Treatment Facility started operation.

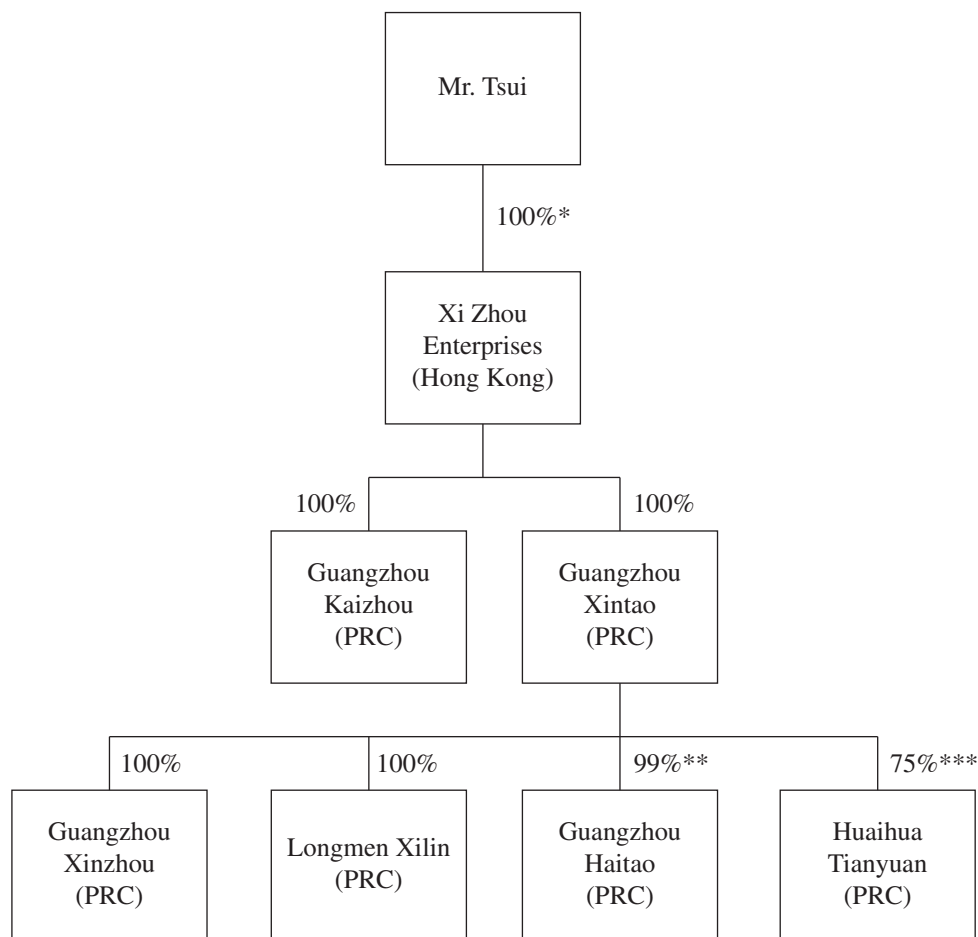
HISTORY AND REORGANIZATION

OUR REORGANIZATION

Prior to our Reorganization, Xi Zhou Enterprises was owned by Mr. Tsui as to 100%, of which 1% was held on trust for Mr. Xu Shu Biao (徐樹標), 1% was held on trust for Ms. Rao Pu (饒樸), 6% was held on trust for Mr. Li Sze Lim (李思廉), 6% on trust for Ms. Cheung Yee Man (張綺雯), and 2% on trust for Great Nation. These beneficial owners of the interests in Xi Zhou Enterprises were not parties acting in concert and there were no special voting arrangements among themselves. Our PRC legal counsel has confirmed that these entrustment arrangements are not in violation of any PRC laws.

Xi Zhou Enterprises was the sole shareholder of Guangzhou Kaizhou and Guangzhou Xintao. Guangzhou Xintao wholly owned Guangzhou Xinzhou and Longmen Xilin. It was also interested in 99% of Guangzhou Haitao and 75% of Huaihua Tianyuan.

Prior to our Reorganization, our shareholding structure was as follows:



* 16% was held on trust by Mr. Tsui for certain other individuals and companies. Please refer to the paragraphs below headed “Entrustment Arrangements” for further details.

** The remaining 1% interest was held by Guangzhou To Kee.

*** The remaining 25% interest was held by 深圳市佳霖源水務科技有限公司 (Shenzhen Jialinyuan Water Treatment Technology Limited), which is an independent third party.

HISTORY AND REORGANIZATION

Entrustment Arrangements

Prior to our Reorganization, Mr. Tsui held his interests on trust for certain other individuals and companies pursuant to various entrustment arrangements.

According to the entrustment agreement dated May 23, 2003 entered into between Mr. Tsui and Mr. Xu Shu Biao, Mr. Tsui held 1% of his interest in Xi Zhou Enterprises on trust for Mr. Xu Shu Biao. According to the entrustment agreement dated May 23, 2003 entered into between Mr. Tsui and Ms. Rao Pu, Mr. Tsui held 1% of his interest on trust for Ms. Rao Pu. Mr. Xu Shu Biao and Ms. Rao Pu were independent third parties at the time when the respective entrustment agreements were entered into. Currently, Mr. Xu Shu Biao is an executive Director of the Company.

According to the share transfer agreement dated December 31, 2008 entered into between Mr. Tsui and Great Nation, Mr. Tsui transferred his 2% beneficial interest in Xi Zhou Enterprises to Great Nation by holding such interests on trust for it. Great Nation and Mr. Lu Yili, the sole shareholder of Great Nation, were both independent third parties at the time when the aforementioned trust arrangement was entered into. Currently, Mr. Lu Yili is an executive Director of the Company.

According to the two share transfer agreements dated December 3, 2009 entered into by Mr. Tsui with Mr. Li Sze Lim and Ms. Cheung Yee Man, respectively, Mr. Tsui transferred his 6% beneficial interests to each of them at a consideration of RMB10,800,000 by holding such interests on trust for them. Mr. Li Sze Lim and Ms. Cheung Yee Man were both independent third parties at the time when the aforementioned trust arrangements were entered into.

Details of the aforementioned entrustment arrangements are as follows:

Name of subsidiary	Name of Nominee	Name of Beneficiary	Relationship of Beneficiary with Mr. Tsui / Xi Zhou Enterprises on the date of the respective entrustment arrangement was entered into	Total percentage held	Date of Entrustment Arrangement
Xi Zhou Enterprises	Mr. Tsui	Mr. Xu Shu Biao	independent third party	1%	May 23, 2003
	Mr. Tsui	Ms. Rao Pu	independent third party	1%	May 23, 2003
	Mr. Tsui	Mr. Li Sze Lim	independent third party	6%	December 3, 2009
	Mr. Tsui	Ms. Cheung Yee Man	independent third party	6%	December 3, 2009
	Mr. Tsui	Great Nation	independent third party	2%	December 31, 2008

The reasons for Mr. Tsui, Mr. Xu Shu Biao and Ms. Rao Pu to enter into the aforementioned entrustment arrangements in 2003 were that such arrangements represented an incentive bonus to Mr. Xu Shu Biao and Ms. Rao Pu for founding Guangzhou Xinzhou, and the beneficial interests in Xi Zhou Enterprises were transferred to them at nil consideration. Pursuant to such arrangements, Mr. Tsui had the right to vote on behalf of Mr. Xu Shu Biao and Ms. Rao Pu, and he must vote in accordance with their wishes, on any matter relating to Xi Zhou Enterprises. In practice, Mr. Tsui has not voted on any matter which was contrary to the wishes of Mr. Xu Shu Biao or Ms. Rao Pu.

In addition, instead of direct transfers, Mr. Tsui held the interests of Mr. Xu Shu Biao, Ms. Rao Pu, Mr. Li Sze Lim, Ms. Cheung Yee Man, and Great Nation, on trust for them, because it was considered more beneficial to the interests of our Group as a whole if Mr. Tsui remained and was seen as the owner of all the shares in our Company for the following reasons: first, Mr. Tsui enjoys a good reputation in the industry and has always represented our Group in negotiating with business partners in the PRC. Accordingly, we believed that it would be commercially advantageous in negotiating future business deals if Mr. Tsui is seen as the sole owner. Second, we believed that our employees

HISTORY AND REORGANIZATION

may regard frequent transfers of shares as a change in control and management of the Company which may create uncertainties, leading them to cast doubt on the stability in the management team. To avoid such a misconception, Mr. Tsui preferred to hold the beneficial interests on trust for the aforementioned parties, instead of transferring such interests to them directly.

Restructuring of our Subsidiaries

Prior to our Reorganization, our subsidiaries underwent the following restructuring activities:

Establishment of PRC subsidiaries

Guangzhou Kaizhou

Guangzhou Kaizhou was established under the laws of the PRC on September 28, 2003 with a registered capital of HK\$20.0 million. Its principal business includes the development and operation of water supply facilities. Since its establishment, Guangzhou Kaizhou has been wholly owned by Xi Zhou Enterprises.

Guangzhou Xintao

Guangzhou Xintao was established under the laws of the PRC on September 28, 2003 with a registered capital of HK\$28.0 million. Its principal business is wastewater treatment. Since its establishment, Guangzhou Xintao has been wholly owned by Xi Zhou Enterprises.

Guangzhou Xinzhou

On June 10, 2003, Guangzhou Xinzhou was established under the laws of the PRC with a registered capital of RMB10.0 million. Its principal business includes the development of wastewater treatment facilities and the management of industrial park properties. Upon its establishment, Guangzhou Xinzhou was held as to 90% by Guangzhou To Kee and 10% by Mr. Xu Zi Tao, a brother of Mr. Tsui and a cousin of Mr. Xu Ju Wen.

Pursuant to a share transfer agreement dated December 1, 2004, Guangzhou To Kee transferred its 30% equity interest in Guangzhou Xinzhou to Mr. Xu Zi Tao at a consideration of RMB3.0 million, which was determined with reference to the registered capital of Guangzhou Xinzhou at that time. As a result of such transfer, Guangzhou Xinzhou was held as to 60% by Guangzhou To Kee and 40% by Mr. Xu Zi Tao.

Pursuant to a share transfer agreement dated June 3, 2010, Guangzhou To Kee and Mr. Xu Zi Tao transferred their entire interests in Guangzhou Xinzhou to Guangzhou Xintao at a consideration of RMB6.0 million and RMB4.0 million, respectively, which were determined with reference to the registered capital of Guangzhou Xinzhou at that time. Since the completion of such transfers, Guangzhou Xinzhou has been wholly owned by Guangzhou Xintao.

Guangzhou Haitao

On November 9, 2009, Guangzhou Haitao was established under the laws of the PRC with a registered capital of RMB10.0 million. Its principal business is wastewater treatment. Upon its establishment, Guangzhou Haitao was held as to 51% by Guangzhou Xintao and 49% by Guangzhou To Kee.

On December 4, 2009, the registered capital of Guangzhou Haitao was increased to RMB30.0 million by the pro-rata contributions of Guangzhou Xintao and Guangzhou To Kee.

HISTORY AND REORGANIZATION

Pursuant to a share transfer agreement dated July 28, 2010, Guangzhou To Kee transferred its 48% to Guangzhou Xintao at a consideration of RMB14.5 million, which was determined with reference to the registered capital of Guangzhou Haitao at that time. Since the completion of such transfer, Guangzhou Haitao has been owned as to 99% by Guangzhou Xintao and 1% by Guangzhou To Kee.

Longmen Xilin

Longmen Xilin was established under the laws of the PRC on March 21, 2008 with a registered capital of RMB5.0 million. Its principal business includes wastewater treatment and the development and operation of waste treatment facilities. Since its establishment, Longmen Xilin has been wholly owned by Guangzhou Xintao.

Huaihua Tianyuan

Huaihua Tianyuan was established under the laws of the PRC on May 21, 2009 with a registered capital of RMB10.0 million. Its principal business includes investment in wastewater treatment projects, such as the development and marketing of environmental protection products. At the time of its establishment, Huaihua Tianyuan was wholly owned by Mr. Gong Shu Ngai (龔樹毅), an independent third party.

Pursuant to a share transfer agreement dated August 18, 2009, Mr. Gong transferred his 50% interest in Huaihua Tianyuan to 深圳市佳霖源水務科技有限公司 (Shenzhen Jialinyuan Water Treatment Technology Limited) (“Shenzhen Jialinyuan”), an independent third party engaged in wastewater treatment projects in the PRC, at a consideration of RMB5.0 million, which was determined with reference to the registered capital of Huaihua Tianyuan at that time. As a result of such transfer, Huaihua Tianyuan was held as to 50% by Mr. Gong and 50% by Shenzhen Jialinyuan.

Pursuant to a share transfer agreement dated January 25, 2010, Mr. Gong transferred his entire interest, and Shenzhen Jialinyuan transferred its 10% interest, in Huaihua Tianyuan to Guangzhou Xintao at a consideration of RMB5.0 million and RMB1.0 million, respectively, which were determined with reference to the registered capital of Huaihua Tianyuan at that time. As a result of such transfers, Huaihua Tianyuan was owned as to 60% by Guangzhou Xintao and 40% by Shenzhen Jialinyuan.

Pursuant to a share transfer agreement dated August 12, 2010, Shenzhen Jialinyuan transferred its 15% interest in Huaihua Tianyuan to Guangzhou Xintao at a consideration of RMB1.5 million, which was determined with reference to the registered capital of Huaihua Tianyuan at that time. Since the completion of such transfer, Huaihua Tianyuan has been owned as to 75% by Guangzhou Xintao and 25% by Shenzhen Jialinyuan.

We acquired Huaihua Tianyuan because of the following reasons: first, it offered us an opportunity to expand the geographical scope of our business to regions outside the Guangdong province; second, the acquisition of Huaihua Tianyuan was in line with our strategy to focus on industrial wastewater treatment since Huaihua Tianyuan’s facility services an industrial park with wastewater sourced mainly from the industrial sector; and third, we believed that the acquisition of Huaihua Tianyuan represented a good profit opportunity in the long run since the concession rights of Phase II of Huaihua Tianyuan Treatment Facility represented an additional designed capacity of 55,000 m³ per day for wastewater treatment.

Establishment of Hong Kong subsidiary

Xi Zhou Enterprises

Xi Zhou Enterprises was incorporated in Hong Kong on July 28, 1999. At the time of its establishment, it was wholly owned by Mr. Tsui and his spouse.

HISTORY AND REORGANIZATION

Share Transfers

On December 31, 2008, Mr. Tsui entered into a share transfer agreement with Great Nation pursuant to which Mr. Tsui agreed to transfer 2% of his beneficial interests in Xi Zhou Enterprises to Great Nation, at a consideration of RMB3,600,000, by holding such interests on trust for Great Nation. Such consideration was determined with reference to the net profit of Xi Zhou Enterprises in 2008 which amounted to approximately RMB36 million, and represented approximately five times the price-earnings ratio of Xi Zhou Enterprises in 2008. The consideration was settled in full on January 6, 2009.

On December 3, 2009, Mr. Tsui entered into a share transfer agreement with each of Mr. Li Sze Lim and Ms. Cheung Yee Man, respectively. Pursuant to these agreements, Mr. Tsui agreed to transfer 6% and 6% of his beneficial interests in Xi Zhou Enterprises to Mr. Li Sze Lim and Ms. Cheung Yee Man at a consideration of RMB10.8 million and RMB10.8 million, respectively, by holding such interests on trust for each of them, respectively. Such considerations were determined with reference to the estimated net profit of Xi Zhou Enterprises in 2009. The considerations were settled in full on December 15, 2009.

PRC Governmental Approvals

On August 8, 2006, MOC, the State-owned Assets Supervision and Administration Commission of the State Council (國務院國有資產監督管理委員會), the State Administration of Taxation (國家稅務總局), the State Administration of Industry and Commerce (國家工商行政管理總局), the China Securities Regulatory Commission (中國證券監督管理委員會) and SAFE jointly issued the Rules on the Acquisition of Domestic Enterprises by Foreign Investors (as amended, re-promulgated and effective on June 22, 2009) 《關於外國投資者併購境內企業的規定》 (the “Foreign Investors M&A Rules”). The Foreign Investors M&A Rules require that an application be made to MOC for examination and approval in relation to the acquisition of any company inside China affiliated with a domestic company, enterprise or natural person, which is made in the name of an overseas company lawfully established or controlled by such domestic company, enterprise or natural person. The Foreign Investors M&A Rules also provide that the overseas listing of a special purpose company controlled directly or indirectly by PRC companies or individuals on an overseas stock market must be approved by the China Securities Regulatory Committee.

As advised by our PRC legal counsel, since (i) our ultimate Controlling Shareholder is a Hong Kong permanent resident, (ii) Guangzhou Xintao and Guangzhou Kaizhou have been foreign investment enterprises since their establishment, and (iii) the acquisitions of Guangzhou Xinzhou and Huaihua Tianyuan by Guangzhou Xintao and the investment and establishment of Longmen Xilin and Guangzhou Haitao by Guangzhou Xintao are categorized as investments by foreign investment enterprise within the PRC, the Listing is not subject to the Foreign Investors M&A Rules and does not require the approval of the China Securities Regulatory Committee.

Pursuant to SAFE’s Notice on Relevant Issues Concerning Foreign Exchange Administration for Domestic Residents to Engage in Financing and Inbound Investment via Overseas Special Purpose Vehicles (關於境內居民通過境外特殊目的公司境外融資及返程投資外匯管理有關問題的通知) (“Circular No. 75”), issued on October 21, 2005, which became effective on November 1, 2005, (i) a PRC resident, including a PRC resident natural person or a PRC company, must register with the local branch of SAFE before he establishes or controls an overseas special purpose vehicle (“SPV”) for the purpose of overseas equity financing (including convertible debt financing); (ii) when a PRC resident contributes his assets of or equity interests in a domestic enterprise into a SPV, or engages in overseas financing after contributing such assets or equity interests into a SPV, such a PRC resident

HISTORY AND REORGANIZATION

must register his interest in the SPV and the change thereof with the local branch of SAFE; and (iii) when the SPV undergoes a material event outside of China, such as a change in share capital or merger and acquisition, the PRC resident must, within 30 days from the occurrence of such event, register such change with the local branch of SAFE.

SAFE subsequently issued relevant guidance to its local branches with respect to the operational process for SAFE registration under Circular No. 75, which standardized more specific and stringent supervision on the registration relating to Circular No. 75 and imposed obligations on onshore subsidiaries of a SPV to coordinate with and supervise the beneficial owners of such SPV who are PRC residents to complete the SAFE registration process. Our PRC legal counsel has advised us that as Mr. Tsui, Mr. Li Sze Lim, Ms. Cheung Yee Man are Hong Kong permanent residents, and Mr. Lu Yili is a Singapore citizen, Circular No. 75 does not apply to Mr. Tsui, Mr. Li Sze Lim, Ms. Cheung Yee Man and Mr. Lu Yili and they are not required to comply with the registration requirements under Circular No. 75. Further, while Mr. Xu Shu Biao and Ms. Rao Pu are PRC resident natural persons, based on the previous oral communication of our PRC legal counsel with the Guangdong Branch of SAFE, we have been advised by our PRC legal counsel that such acquisition of interests by Mr. Xu Shu Biao and Ms. Rao Pu does not fall within the scope of Circular No. 75, and that they are not required to comply with the registration requirements thereunder.

Our PRC legal counsel has confirmed that the relevant entities within the Group have obtained all the necessary requisite permits, licenses and approvals for each stage of the restructuring of our PRC subsidiaries.

Reorganization

In preparation for the Global Offering, the Group underwent the following Reorganization:

Establishment of holding companies

Two holding companies, Bright Sign and Keen Vast were incorporated in the British Virgin Islands on October 12, 2010 and October 15, 2010, respectively, to act as the intermediate holding company for the interests in Xi Zhou Enterprises held by the Company and the holding company for the interests of the Shareholders, respectively.

The initial authorized share capital of each of Bright Sign and Keen Vast was US\$50,000 divided into 50,000 shares of US\$1.00 each.

Establishment of the Company

The Company was incorporated in the Cayman Islands on November 30, 2010 to act as the ultimate holding company and listing vehicle of the Group. The initial authorized share capital of the Company was HK\$380,000 divided into 3,800,000 shares of HK\$0.10 each. Upon incorporation, one subscriber share was transferred to Mr. Tsui.

Assignment of Interests in Shares

On March 25, 2011, Mr. Li Sze Lim and Ms. Cheung Yee Man assigned their rights in their respective 6% interests in Xi Zhou Enterprises to each of Green Prosper and Yifeng Investments, companies wholly owned by Mr. Li Sze Lim and Ms. Cheung Yee Man, respectively. The reason for such assignments is to facilitate the management of shareholdings by Mr. Li Sze Lim and Ms. Cheung Yee Man.

HISTORY AND REORGANIZATION

Transfer of shares to the Company, Mr. Tsui and Keen Vast

On November 8, 2010, one share in Bright Sign and one share in Keen Vast were allotted to Mr. Tsui.

On March 24, 2011, Mr. Tsui transferred his one share in Bright Sign to the Company.

On March 24, 2011, Mr. Tsui transferred his one share in the Company to Keen Vast.

Acquisition of Xi Zhou Enterprises

On March 25, 2011, Mr. Tsui transferred to Bright Sign his entire interests (including the beneficial interests he held on trust for the respective beneficiaries, namely, Mr. Xu Shu Biao, Ms. Rao Pu, Green Prosper, Yifeng Investments and Great Nation) in Xi Zhou Enterprises, in consideration of which, 859,999 Shares were allotted and issued to Keen Vast, and an aggregate of 140,000 Shares were allotted and issued to Mr. Tsui, who held 60,000, 60,000 and 20,000 Shares on trust for Green Prosper, Yifeng Investments and Great Nation, respectively, credited as fully paid, as directed by Bright Sign. At the same time, 99 shares in Keen Vast were allotted and issued to Mr. Tsui, of which one share was held on trust for each of Mr. Xu Shu Biao and Mr. Rao Pu.

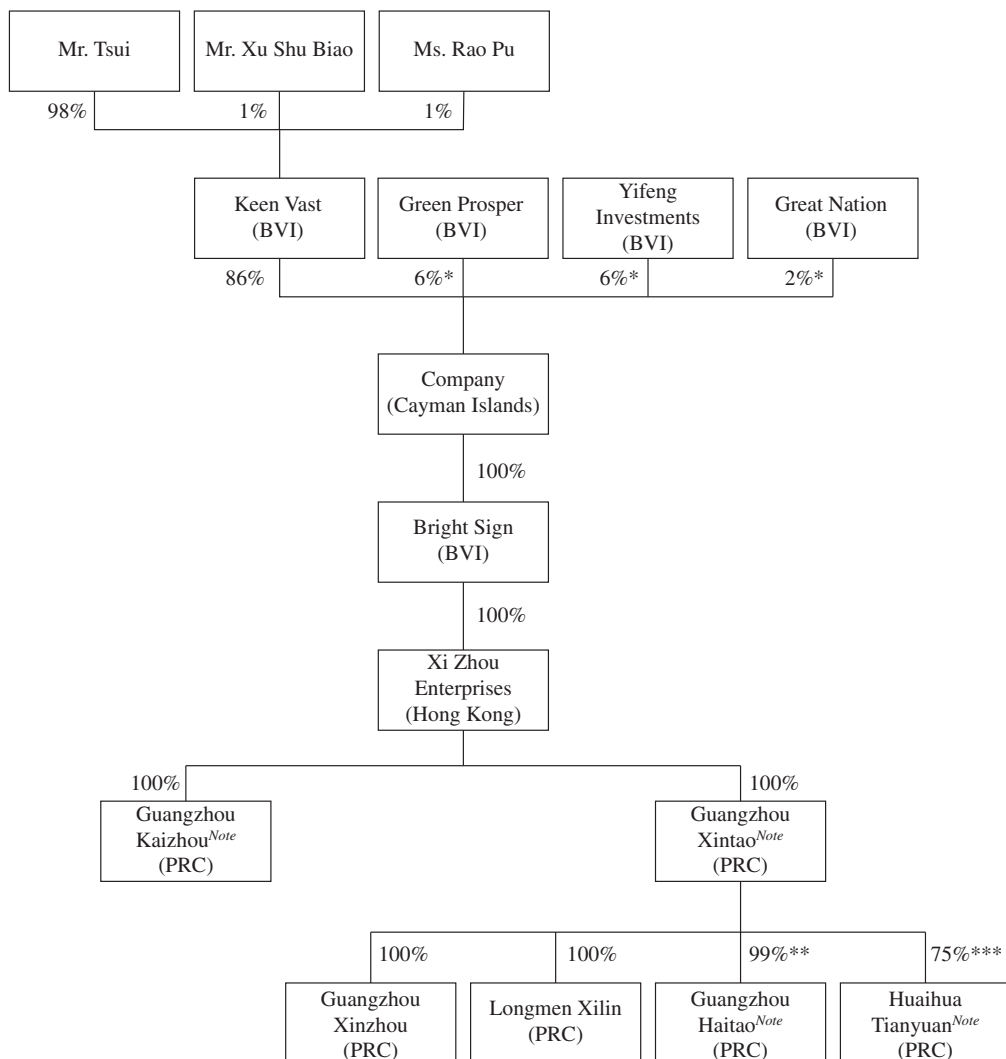
As a result of the aforementioned acquisition, Mr. Tsui no longer held any shares in Xi Zhou Enterprises, and he held on trust 1% interest in Keen Vast for each of Mr. Xu Shu Biao and Mr. Rao Pu, and held on trust 6%, 6% and 2% interests in the Company for each of Green Prosper, Yifeng Investments and Great Nation, respectively.

Elimination of Trust Arrangements

On May 31, 2011, in preparation for the Global Offering and to enable the trust beneficiaries to hold their interests directly, Mr. Tsui transferred his 2% legal interests in Keen Vast equally to the respective trust beneficiaries, namely, Mr. Xu Shu Biao and Ms. Rao Pu, and his 14% legal interests in the Company to the respective trust beneficiaries, namely Green Prosper, Yifeng Investments and Great Nation, in the proportion of 6%, 6% and 2%, respectively. The interests of Mr. Xu Shu Biao and Ms. Rao Pu have been diluted as a consequence of the Reorganization. This arrangement has been negotiated with and agreed by Mr. Xu Shu Biao and Ms. Rao Pu. According to the confirmations dated February 23, 2011, Mr. Xu Shu Biao and Ms. Rao Pu confirmed that they had agreed to such arrangements based purely on the commercial considerations and would not challenge the reasonableness of such arrangements in future. Furthermore, they confirmed that there was no benefit accruing from the Company to them in connection with the Reorganization.

HISTORY AND REORGANIZATION

Upon completion of the aforementioned transfers, the shareholding structure of our Group was as follows:



* Green Prosper is wholly owned by Mr. Li Sze Lim, Yifeng Investments is wholly owned by Ms. Cheung Yee Man, and Great Nation is wholly owned by Mr. Lu Yili.

** The remaining 1% interest was held by Guangzhou To Kee.

*** The remaining 25% interest was held by 深圳市佳霖源水務科技有限公司 (Shenzhen Jialinyuan Water Treatment Technology Limited), which is an independent third party.

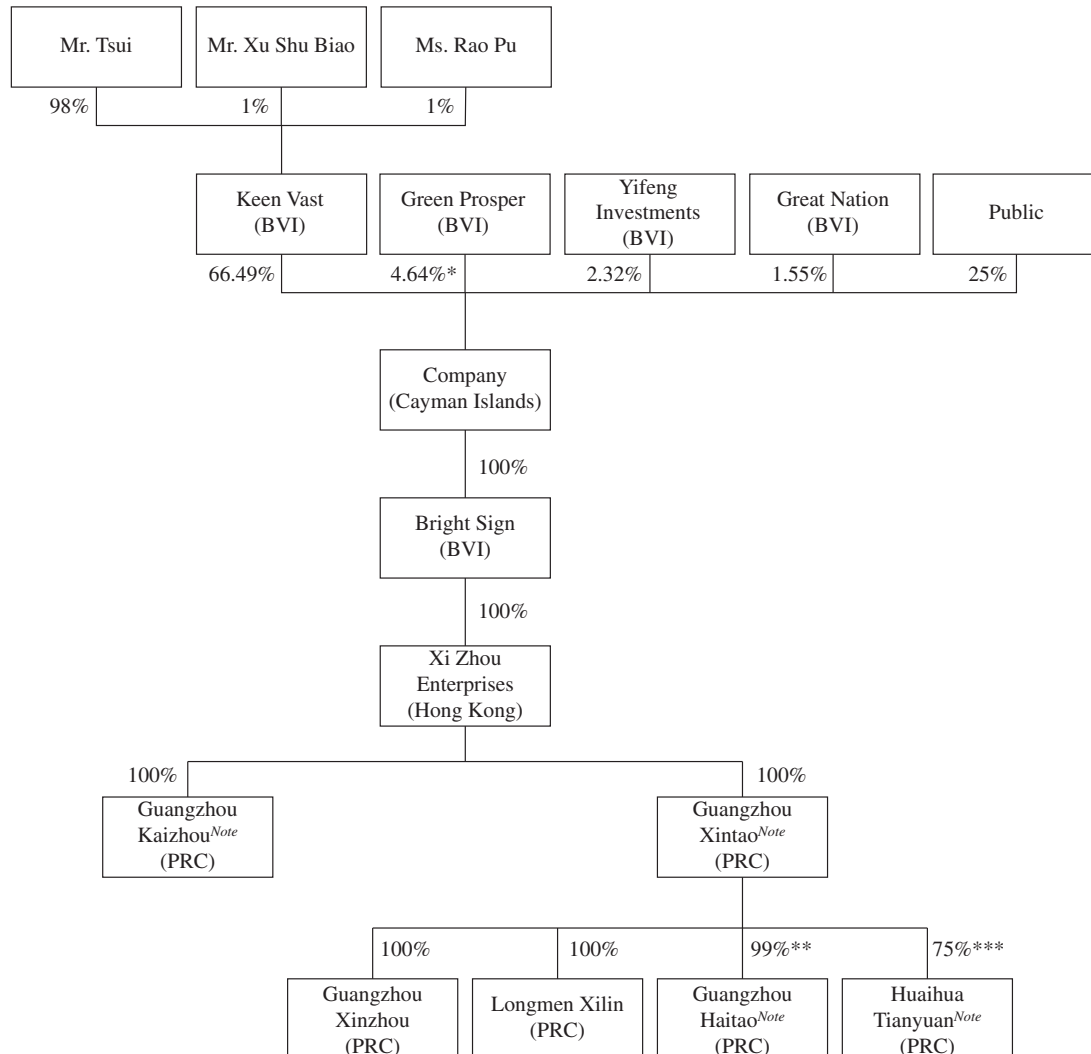
Note: Each of these companies is a principal operating subsidiary of the Company.

Capitalization Issue

Conditional upon the share premium account of the Company being credited as a result of the Global Offering, the Directors would be authorized to capitalize the amount of HK\$89,900,000 from such account and applying such sum in paying up in full at par a total of 899,000,000 Shares for the allotment and issue to its then shareholders recorded on the register of members of the Company on the date the Capitalization Issue was approved by the Shareholders on a pro rata basis.

HISTORY AND REORGANIZATION

Immediately following the completion of the Capitalization Issue and the Global Offering (assuming the Over-allotment Option is not exercised), the shareholding structure of our Company will be as follows:



* Green Prosper is wholly owned by Mr. Li Sze Lim, Yifeng Investments is wholly owned by Ms. Cheung Yee Man, and Great Nation is wholly owned by Mr. Lu Yili.

** The remaining 1% interest was held by Guangzhou To Kee .

*** The remaining 25% interest was held by 深圳市佳霖源水務科技有限公司 (Shenzhen Jialinyuan Water Treatment Technology Limited), which is an independent third party.

Note: Each of these subsidiaries is a principal operating subsidiary of the Company.

OVERVIEW

We are a provider of one-stop centralized and customized wastewater treatment and industrial water supply services in China focusing on industrial wastewater treatment. Our services cover the whole value chain of wastewater treatment and industrial water supply services industry, from design planning, procurement and construction, to operations and maintenance of the wastewater treatment and water supply facilities. In 2003, we commenced construction of our flagship project, Guangzhou Xinzhou Industrial Park Treatment Facility, at Guangzhou Xinzhou Industrial Park. Such facility was one of the five industrial wastewater treatment projects in Guangdong province that received the “2007 Key National Model Project for Practical Technology in Environmental Protection” (2007年國家重點環保實用技術示範工程) award granted by the China Environmental Protection Association (中國環境保護產業協會). According to the Ernst & Young Report, this industrial park is one of the leading textile and dyeing industrial parks in China in terms of wastewater treatment capacity. It has also been recognized by the Guangdong Province Environmental Protection Association as a leading industrial park with the largest centralized wastewater treatment facilities in terms of treatment capacity for the textile industry in the province.

Our principal business is the provision of industrial wastewater treatment and industrial water supply services. We also take on certain projects to provide municipal wastewater treatment services if we consider such projects to be beneficial to us, taking into account factors such as profit margins and development of relationships with local governments. In general industrial wastewater treatment and industrial water supply services have a higher gross profit margin than municipal wastewater treatment services, according to the Ernst & Young Report. Some of our treatment facilities can treat a mixture of industrial and municipal wastewater.

We focus on developing centralized and cost-efficient wastewater treatment facilities for industrial parks or clusters. Many local governments are increasingly promoting the large-scale development of selected industries in the form of specialized industrial parks or clusters. We expect this trend to continue and intend to capitalize on the anticipated industrial growth by actively seeking business opportunities in and further expanding our operations to other parts of China such as Sichuan, Hubei, Jiangxi and Guangxi provinces. We believe our strong track record in providing centralized wastewater treatment and industrial water supply services positions us well to capitalize on the continued industrial growth in China.

We have historically focused on providing treatment services to the textile industry. We are headquartered in Zengcheng city, Guangdong province, which produced more than 60% of the denim apparel in China in 2008 according to the Urban Planning Bureau of Zengcheng city, Guangdong province. In 2003, we commenced construction of our flagship project, the Guangzhou Xinzhou Industrial Park Treatment Facility, and as of December 31, 2010, we had provided wastewater treatment services to 26 companies in the textile industry in Zengcheng city, Guangdong province. We have expanded our business and operations considerably over the past few years. We currently have three wastewater treatment plants and one industrial water supply plant in operation located in Guangdong province and one wastewater treatment plant in operation located in Hunan province. These facilities have an aggregate constructed capacity of 215,000 m³ per day for wastewater treatment and 150,000 m³ per day for industrial water supply. For the month ended December 31, 2010, these facilities had an aggregate daily average utilized capacity of 184,796 m³ per day for wastewater treatment and 94,542 m³ per day for industrial water supply. We recently commenced operations at our Huaihua Tianyuan Treatment Facility servicing nine companies. This project signifies our expansion of wastewater treatment services from the textile industry to other industries, such as the pulp and paper-making industry as well as the food and beverage industry. We expect to leverage our successful experience in providing centralized wastewater treatment services in the development of our new projects.

BUSINESS

Our total turnover had grown rapidly during the Track Record Period from HK\$81.6 million in 2008 to HK\$137.8 million in 2009 and to HK\$361.4 million in 2010, representing a CAGR of 110.5%. Our total turnover was HK\$71.3 million for the three months ended March 31, 2011. Our profit attributable to equity holders of our Company also grew rapidly during the Track Record Period, from HK\$36.8 million in 2008 to HK\$74.2 million in 2009 and to HK\$120.9 million in 2010, representing a CAGR of 81.3%. Our profit attributable to equity holders of our Company was HK\$33.6 million for the three months ended March 31, 2011. Our overall high gross profit margin during the Track Record Period was primarily attributable to economies of scale from the provision of centralized wastewater treatment services to multiple customers and the increase in the unit price charged for wastewater treatment services by Guangzhou Xinzhou Industrial Park Treatment Facility. For more details, please refer to the section headed “Financial Information — Description of Selected Income Statement Line Items — Gross profit and gross profit margin.”

Core Business — Wastewater Treatment and Industrial Water Supply Services

We focus on providing integrated, customized, centralized and large-scale industrial wastewater treatment and water supply services in a cost-effective and timely manner. Our services encompass the whole value chain of the wastewater treatment and industrial water supply services industry, which covers the processes of project selection, project design, execution and project management, procurement and construction, as well as ongoing operation and maintenance of wastewater treatment and water supply facilities.

Wastewater Treatment — BOO and BOT Project Models

We use either the Build-Own-Operate (“BOO”) or Build-Operate-Transfer (“BOT”) project model to provide our wastewater treatment services. The differences between our BOO and BOT project models are summarized below. For more details, please refer to the sections headed “Industry Overview — China’s Wastewater Treatment Industry — Wastewater Treatment Operating Modes” and “Business — Our Project Management Process.”

For our BOO projects, the relevant project company builds, owns and operates the facility and retains all of the surplus operating revenue. The project company is responsible for financing the project and relevant land acquisition costs, and designing, constructing, operating and managing the project. BOO projects are more commonly used for industrial wastewater treatment, including construction projects in industrial parks where the local government may not have sufficient capital to finance treatment facilities. The government does not generally provide direct funding for BOO projects, but may offer other financial incentives such as tax reductions or tax holidays. We typically finance our BOO projects through a combination of our own funds and bank loans secured by the project company’s assets. We cooperate with the local government in the development of the relevant industrial park, starting from the master-planning process, followed by the design, construction and commencement of operation of our facilities. We further collaborate with the local government in attracting customers to join the industrial parks. BOO projects can generally earn a higher profit as, unlike our BOT projects, they are not subject to fixed government tariffs, and we thus have greater flexibility in formulating pricing policy and passing increased costs to our customers. The relevant local government will recommend a maximum price for each BOO project, and a project company can apply to the relevant government authority to increase this recommended maximum price. In general, the return on equity for BOO projects is on average higher than that for BOT projects. For our BOO projects, we rely on certain significant customers, particularly in the textile industry. We intend to increase our return on investment for these projects by expanding our operations and engaging more customers. In general, growth in BOO wastewater treatment projects is primarily driven by industrialization as well as government policy on reducing industrial pollution.

For our BOT projects, the relevant government or industry player grants the operational right to the relevant project company, which builds and operates the facility for a specified period pursuant to a concession agreement, and transfers ownership of the project facility to the government or other specified party at the end of the specified concession period, generally for nil consideration. The project company is responsible for financing, designing, constructing, operating and managing the project for the duration of this specified concession period. BOT projects can generally be adopted in both municipal and industrial wastewater treatment projects. However, we currently mainly use the BOT project model primarily to provide municipal wastewater treatment services. BOT projects are acquired by means of a government-mandated open tender process, and are routinely monitored by the authorities in charge of supervising municipal public utilities. We are required to transfer the treatment facilities to the relevant local governments for nil consideration upon the expiry of the concession period. Further, we are generally required to carry out comprehensive repair works prior to this transfer, and in some cases provide a warranty period of 12 months following the transfer. In general, BOT project companies receive a stable return on investment during the concession period to cover initial costs as well as operation and maintenance fees by receiving periodic payments from the government or industry player, as applicable, for wastewater treatment services. Unlike BOO projects for which wastewater treatment prices may be freely negotiated subject to a government-recommended maximum price, tariffs for BOT projects are determined by a pricing adjustment formula consisting of factors such as interest rates and utility prices. These cost factors are generally reviewed every two or three years or as designated in the concession agreement. If costs have exceeded the designated range, the project company has the right to request the payment to increase correspondingly subject to the government's approval. Due to this limitation on pricing flexibility, BOT projects in general earn lower profit margins and return on investment than BOO projects. In general, growth in BOT wastewater treatment projects is driven by urbanization and the government's increasing promotion of environmental protection policies.

Wastewater Treatment — BOO and BOT Project Accounting Treatment

The accounting treatment of a BOT project is different from that of a BOO project. The mix of BOO and BOT project models will have an impact on our turnover and cost recognition, cash flows and gross profit margin during the relevant periods. The differences in the accounting treatment of our BOO model and BOT model are summarized below. For more details, please refer to the sections headed "Financial Information — Description of Selected Income Statement Line Items — Turnover" and "Financial Information — Factors Affecting Our Results of Operations — Project Model Mix."

For our BOO projects, we recognize turnover when wastewater treatment services are rendered during the operational phase. We record the amount of turnover recognized from the provision of wastewater treatment services in our combined income statement. Outsourcing costs related to the construction of our facilities, as well as property, plant and equipment used in providing such services are capitalized as fixed assets. Depreciation of such property, plant and equipment is recognized in profit or loss on a straight-line basis over the estimated useful lives less their estimated residual value. Unlike BOT projects, the accounting treatment for BOO projects does not involve any estimation or recognition of construction turnover.

Our BOT projects are considered as service concession arrangements under HK (IFRIC) 12. As such, we recognize turnover from a BOT project during both the construction phase and the operational phase, while we generally only receive payments for our services rendered during the operational phase. Turnover for the construction phase expected to be generated from a BOT project is estimated and valued at the time the relevant contracts for the project are entered into. During the construction phase, we recognize turnover for construction services under our BOT projects on the basis of the percentage of completion. Turnover recognized during the operational phase accounts for the remainder of the total turnover from such BOT projects. For more details, please refer to the sections headed "Financial Information — Description of Selected Income Statement Line Items — Turnover" and "Financial Information — Factors Affecting Our Results of Operations — Project Model Mix."

BUSINESS

For our BOO projects, we recognize turnover when we provide wastewater treatment services under the operational phase and we normally expect to receive the cash flow matching the recognized turnover within the credit period granted to our customers. We generally do not receive any payment during the construction phase of our BOT projects. The actual cash inflow for our construction turnover from our BOT projects will only be received in the form of cash tariff payments during the operational phase of the relevant BOT projects, which can be up to 30 years. If we undertake more BOT projects in the future, this will result in a significant cash flow mismatch as we may not have the cash inflow matching the turnover recognized during the construction phase of our BOT projects.

Municipal Waste-to-Energy Project

Pursuant to a joint venture memorandum of understanding (the “MOU”) entered into between Guangzhou To Kee and Guangri Group dated December 18, 2010, both parties will jointly establish a project company in which each party will hold a 50% interest in relation to a waste-to-energy project. Guangzhou To Kee will cooperate with Guangri Group in the daily management of the project company as well as the construction and operation of the project in Zengcheng city, Guangdong province. Guangri Group will be responsible to provide the technology and expertise required for the waste-to-energy project. Guangzhou To Kee is responsible for obtaining the relevant local approvals and construction permits for the project, as well as handling land acquisitions and public relations matters in Zengcheng city, while Guangri Group is responsible for obtaining the relevant municipal and provincial level approvals, construction permits and other related technical matters in Guangdong province and Guangzhou city. On January 5, 2011, Guangzhou Xintao entered into a separate agreement with Guangzhou To Kee, pursuant to which Guangzhou To Kee transferred all the rights and obligations of the memorandum of understanding to Guangzhou Xintao. The Company’s involvement in the waste-to-energy project has therefore moved beyond a preliminary discussion stage and the Company has contractual rights and obligations in relation to the development of the waste-to-energy project. Such transfer of rights and obligations did not involve any transfer fees or taxes and had been expressly acknowledged by Guangri Group. The first phase of the municipal waste-to-energy project is expected to have the capacity to treat 2,000 tonnes of municipal waste per day. The estimated investment amount is approximately RMB800.0 million, borne in equal proportions by the joint venture parties, of which we expect to fund RMB120.0 million from our own resources, in line with our intention to fund 30% of our total investment amounts from our own resources. We expect the project to commence operations in 2013. The main source of revenue for this project will be from the provision of waste incineration services (which in turn generates electricity) and other ancillary services. According to our PRC legal counsel, the MOU, as well as the abovementioned agreement entered into in relation to the waste-to-energy project, is legally binding and enforceable under the PRC law.

We intend to fund the waste-to-energy project using proceeds from the Global Offering and bank borrowings. Since the municipal waste-to-energy project is intended to bring about environmental benefits, the project has received strong support from the local government, which we believe will facilitate our ability in obtaining the necessary funding from banks. Accordingly, our Directors are of the view that we have sufficient resources to develop the municipal waste-to-energy project. Pursuant to the MOU, as Guangri Group has the expertise in operating a waste incineration and power generation plant and also possesses advanced waste incineration technology and equipment, Guangri Group will be responsible to provide the technology and expertise required for the waste-to-energy project. We intend to leverage the expertise and experience that Guangri Group has in the area of waste incineration and at the same time, build up our experience in the management of this project. Our Directors are of the view that through close cooperation with Guangri Group, we have the necessary managerial expertise to develop the municipal waste-to-energy project. For more details, please refer to the section headed “Business — Our Waste-to-Energy Project.”

Sludge Treatment

We currently treat sludge produced as a by-product of our wastewater treatment through a comprehensive treatment process, and give the post-treated sludge to a licensed third party for legitimate industrial use or disposal. Currently we do not sell the post-treated sludge products. Our solar industrial sludge drying system used in the sludge treatment process mainly reduces the water content in the sludge. Post-treated sludge may be used as a component of fuel substitute by blending with additional fuels such as coal for use in certain manufacturing processes.

Our sludge treatment facilities are located in Guangzhou Xintao Wastewater Treatment Facility. The planned design capacity of sludge treatment for third parties will be approximately 90 tonnes per day for post-treated sludge having water content of no more than 45%. We intend to use the solar sludge drying technology in the sludge treatment project. Additional facilities and equipment, such as post-treated sludge handling units and distribution pipes, will be required for our expansion in sludge treatment for third parties. The estimated investment amount is approximately RMB25.8 million. We plan to complete the construction of the entire sludge drying system within 2011 and thereafter apply for the Sludge Treatment Permit in accordance with the requirements of the Guangdong Province Solid Waste Treatment Administrative Licensing Implementation Measures (廣東省嚴控廢物處理行政許可實施辦法). Upon receiving such permit, we may provide sludge treatment services to licensed third parties. For more details, please refer to the section headed “Business — Our Sludge Treatment Process.”

Heating Services

As a complementary business, we intend to also provide heating services to our customers in Guangzhou Xinzhou Industrial Park. The provision of central heating services was planned to be a part of Guangzhou Xinzhou Industrial Park at the outset, and was delayed because the conditions within the park necessary for such implementation were not in place at the time. As such, the individual facilities within the park had installed small-scale boilers to meet their respective heating needs. We are pursuing this project because conditions within the park have now made it more feasible for central heating services to be provided within the park, and the relevant environmental protection bureau has requested that factories replace small-scale boilers with a central heating service as soon as possible. Pursuant to an agreement and a supplementary agreement for the provision of heating services entered into on January 26, 2011 between Guangzhou Xintao and Guangzhou Development Xintang Heat Co. Ltd (“Xintang Heat”), we intend to procure heating from Guangzhou Development Xintang Heat Co. Ltd., which provides heating services to customers outside the industrial park, but does not currently provide any such service within the park. We in turn provide heating services to our customers in Guangzhou Xinzhou Industrial Park. Guangzhou Xintao has already applied to and received approval from the relevant authorities to expand its scope of business to include the provision of central heating services. Our PRC legal counsel has advised us that no additional special permits or licenses are required for Guangzhou Xintao to provide central heating services in Guangzhou Xinzhou Industrial Park. We believe that, by providing central heating services in Guangzhou Xinzhou Industrial Park, we can benefit both the environment and the companies within the park, including Guangzhou Xintao. The estimated investment amount is approximately RMB15.0 million and we expect to commence providing such heating services in the second half of 2011. The main source of revenue will be payments from customers for the provision of heating services. For more details, please refer to the section headed “Business — Our Projects — Guangzhou Xinzhou Industrial Park Treatment Facility.”

While we intend to expand our operations into other waste treatment areas, the provision of wastewater treatment services will continue to be our core business in the future. Please refer to the section headed “Risk Factors” for more information on the risks associated with our business and future development.

COMPETITIVE STRENGTHS

We believe we have the following competitive strengths that differentiate us from our competitors in the wastewater treatment and industrial water supply services industry in China.

Experience in providing integrated, customized, centralized and large-scale industrial wastewater treatment and water supply services

We are qualified to operate our wastewater treatment facilities nationally and across industries. We focus on providing integrated, customized, centralized and large-scale industrial wastewater treatment and industrial water supply services in a cost-effective and timely manner. Our services encompass the whole value chain of the wastewater treatment and industrial water supply services industry, which covers the processes of project selection, project design, execution and project management, procurement and construction, as well as the ongoing operation and management of the treatment and water supply facilities. We have experience in providing such integrated solutions to our customers in a cost-effective and timely manner. During the project design phase, we collaborate with our customers to assess their needs and, based on such assessment, design a customized treatment plan to ensure the post-treated water meets the regulated discharge standards for the respective industry. Our collaboration with our customers at an early stage during the project design phase allows us to effectively design the appropriate treatment process, as well as to monitor and control the level of pollutants during the operations and management phase.

We believe we are one of the pioneers in developing centralized wastewater treatment facilities for textile and dyeing industries in Guangdong province. On January 30, 2011, the Guangdong Province Environmental Protection Industry Association issued a certificate, which certified that Guangzhou Xinzhou Environmental Protection Industrial Park began its construction in 2003 and that Guangzhou Xintao is one of the pioneers in the environmental protection industry that provide centralized textile and dyeing industrial wastewater treatment in Guangdong province. We also believe that our provision of centralized treatment solutions to multiple customers allows us to achieve economies of scale. It is usually difficult for a company to execute large wastewater treatment projects, and the fact that we have been able to successfully do so and replicate this model for subsequent projects, is, we believe, a testament to our ability to utilize our resources to continue executing similarly large-scale projects. For example, in Guangzhou Xinzhou Industrial Park, as of December 31, 2010, we had provided wastewater treatment and industrial water supply services to 26 customers operating in the industrial park. Most of these customers are in the textile industry. As we utilize the infrastructure and technologies targeted to treat large quantities of wastewater from similar sources and containing similar pollutants, we are able to derive economies of scale.

We also have a strong track record of utilizing our management bandwidth, technology, skills and internal systems to execute large projects. Some of our projects in operation include Guangzhou Xinzhou Industrial Park Treatment Facility, which has a designed industrial wastewater treatment capacity of 100,000 m³ per day and industrial water supply capacity of 150,000 m³ per day, and Phase I of our Yonghe Haitao Treatment Facility which has a designed capacity of 50,000 m³ per day. We expect to leverage our successful experience in providing centralized industrial wastewater treatment services to secure future projects and maintain our market position in the wastewater treatment industry in China.

Early mover in the wastewater treatment and industrial water supply services industry

We are among the first providers of centralized wastewater treatment services for textile and dyeing industries in Guangdong province, which is one of the leading provinces in environmental protection in China, according to the Ernst & Young Report.

In 2003, we commenced construction of our first treatment plant and water supply facilities as part of Guangzhou Xinzhou Industrial Park, after discussion and planning with the government of Zengcheng city, Guangdong province. Since 2007, we have developed projects in other locations in Guangdong and Hunan provinces. We also have the ability to provide wastewater treatment services to customers in multiple industries. We recently expanded our wastewater treatment services beyond the textile industry into other industries. For Phase I of our Huaihua Tianyuan Treatment Facility, we provide wastewater treatment services to customers operating in industries such as pulp and paper-making as well as food and beverage. We expect to continue providing wastewater treatment services to additional industries. We believe our early mover position and our ability to provide integrated, customized and centralized wastewater treatment and industrial water supply services to various customers in multiple industries will give us a strong competitive edge over our competitors.

We believe there are entry barriers for potential competitors to enter into certain areas to compete with us in providing wastewater treatment and industrial water supply services. The relevant environmental protection department sets and allocates the pollutants discharge quota for a designated area. Once the fixed amount of pollutants discharge quota has been fully allocated to the relevant entities by the local government in the regions where we operate, new enterprises intending to start operations in the relevant regions may not be able to obtain any pollutants discharge quota and therefore, may not be able to obtain approval from the local government to operate in the relevant regions. As such, in certain designated area where we have obtained an allocated pollutants discharge quota and any remaining discharge quota has been allocated to the other entities, there may be no additional pollutants discharge quota available for any new enterprises. As such, we believe the fixed pollutants discharge quota allocated to us forms a regional entry barrier to our potential competitors, providing us with a strong competitive advantage in such regions. For more details on our pollutants discharge quota, please refer to the section headed “Business — Our Project Management Process — Pollutant Discharge Quota.”

Strong in-house R&D and technical capabilities

Our R&D team focuses on developing designs using our technologies adapted to the specific customized projects after we investigate and research the background of our projects. For example, some of the notable technologies and techniques include a type of textile and dyeing wastewater solid removal equipment, a type of anaerobic treatment equipment and a type of solar industrial sludge drying system. For more details, please refer to the section headed “Business — Research and Development.” In addition, we collaborate with well-known universities and institutes such as South China Institute of Environmental Sciences (華南環境科學研究所) and Sun Yat-Sen University (中山大學), which have research teams specializing in wastewater treatment technologies and other environmental issues.

Our technical capabilities have enabled us to control and monitor the level of pollutants in the water or wastewater during our treatment process. In particular, using our centralized monitor system at the respective treatment plants, our experienced technical specialists, on a daily basis, control and monitor the pollutant level of our water or wastewater and adjust the treatment process accordingly, allowing us to effectively and efficiently treat the water or wastewater to attain the water quality standard specified in the agreements with our customers. Our technical capabilities also allow us to reclaim post-treated wastewater for industrial use. Generally, the COD level of our post-treated wastewater is lower than the prescribed COD level imposed by the national and regional environmental regulations. Our ability to attain such a low COD level in post-treated wastewater has enabled us to reclaim post-treated wastewater for industrial use at any plant equipped with combined wastewater treatment and industrial water supply facilities and reduce our discharge amount of such post-treated wastewater, which effectively increases the total amount of wastewater that we can treat and generate revenue from. In particular, in our Guangzhou Xinzhou Industrial Park Treatment Facility, we engage in a full cycle of water treatment to efficiently reclaim post-treated industrial wastewater for industrial use by our customers.

Besides utilizing customized technologies and techniques for treating wastewater in the textile industry, we also utilize technologies for treating wastewater for other industries and have the flexibility in applying and adapting such technologies to suit new industries. In particular, we have applied a combined chemical and biological wastewater treatment process for our customers in the pulp and paper-making industry at our Huaihua Tianyuan Wastewater Treatment Facility. As of the Latest Practicable Date, our in-house R&D team consisted of 16 members. We believe our strong R&D and technical capabilities as well as our flexibility in adapting and applying our existing technologies to suit other new industries position us well to seize on future business opportunities in providing wastewater treatment and industrial water supply services in other industries and regions of China.

Well-positioned to benefit from the increasing focus by the PRC Government on environmental protection and favorable governmental policies

The PRC Government increased investment in environment protection during the past two decades. It is estimated that the PRC Government will invest approximately RMB3.1 trillion in environmental protection during the 12th Five-Year Plan period between 2011 and 2015, including investment in wastewater treatment and water supply infrastructure. We believe this anticipated increase in government spending on the wastewater treatment and water supply infrastructure will further increase the demand for our services. In addition to our wastewater treatment and industrial water supply services, we also intend to expand into other environmental protection businesses such as waste treatment services including sludge treatment for third parties and municipal waste-to-energy.

Environmental regulatory requirements in the PRC are becoming increasingly stringent as the PRC Government sets stricter water quality standards for the wastewater treatment services industry. Local governments are also active in the enforcement of environmental policies, inspecting manufacturing facilities and closing of facilities that do not meet the required standard or those that willfully discharge untreated wastewater. Our R&D and engineering teams work together to address technical issues in meeting stringent wastewater discharge standards and other environmental regulatory requirements in the PRC. We believe our industry knowledge and strong R&D capabilities has been a key factor in enabling us to meet the relevant environmental regulatory requirements and further allowing us to capitalize on the increasingly strict environmental regulatory landscape in our industry.

We currently benefit from favorable government policies which include tax exemption and reduction. Pursuant to the Foreign Investment Enterprises and Foreign Enterprises Income Tax Law (外商投資企業和外國企業所得稅法), our wholly foreign-invested subsidiaries, Guangzhou Xintao and Guangzhou Kaizhou, enjoyed full exemption from income tax for 2008 and 2009, and will enjoy a 50% reduction in income tax for the three years subsequent to 2009. In addition, pursuant to the Ministry of Finance, the State Administration of Taxation on Comprehensive Utilization of Resources and Other Products Value-Added Tax Policy Notice (財政部、國家稅務總局關於資源綜合利用及其他產品增值稅政策的通知), Guangzhou Haitao, Longmen Xilin, Guangzhou Xintao and Huaihua Tianyuan are exempt from paying PRC value-added tax on the provision of their wastewater treatment services. Furthermore, pursuant to Article 88 of the PRC Enterprises Income Tax Law Implementation Regulations (中華人民共和國企業所得稅法實施條例), the income derived from our Longmen Xilin Treatment Facility, Yonghe Haitao Treatment Facility and Huaihua Tianyuan Treatment Facility are exempt from enterprise income tax for three years commencing from the first revenue-generating year of operations, and thereafter are entitled to a 50% reduction from enterprise income tax for the subsequent three years.

We believe the increasing focus by the PRC Government on environment protection and the related favorable governmental policies will further increase the demand for our services and have a positive impact on the outlook of our business.

Strong and stable relationships with local governments

We have strong relationships with the local governments. Due to the nature of BOT projects, which must be acquired through a governmental tender process, it is necessary to have a satisfactory existing and ongoing working relationship with the government. We have, in the past, won the bids for our BOT projects. As to BOO projects, such as Guangzhou Xinzhou Industrial Park Treatment Facility, we had engaged in discussions and planning with the local government in the development of the industrial park. In addition, we have received several awards and certificates from the local government, as detailed in the section headed “Business — Awards”. Finally, local governmental officials have in the past visited our treatment facilities.

We believe our strong relationships with local governments will enable us to benefit from and capture opportunities in the growing markets into which we seek to expand. With a view to strengthening economic development in their respective regions, local governments promote the development of selected industries in designated areas in a large-scale manner in the form of specialized industrial parks or clusters. For our projects involving the establishment of treatment facilities for industrial parks, we cooperate with the local government on the development of the relevant industrial park. Our strong and stable relationships with the local governments help ensure smooth implementation and execution of the projects as such working relationships facilitate our obtaining the relevant approvals from governmental authorities in a timely manner as well as increase the efficiency in our master planning with the local governments. In addition, we believe such relationships with local governments enhance our brand recognition and set a reference for other local governments in the areas to which we expand.

Experienced and professional management team supported by a skilled work force

We have a strong and professional management team characterized principally by its continued commitment to our Company, its professional execution capability and the extensive experience of its members. Our management includes qualified people with extensive experience in our business and engineering or technical backgrounds, which enhances our ability to execute large projects. Our management team includes members having an approximately 10 years of experience in the wastewater treatment and industrial water supply services industry with a proven track record. For example, both Mr. Tsui Cham To, our managing director and chairman, and Mr. Xu Shu Biao, our executive Director, have approximately 10 years of experience in the wastewater treatment and industrial water supply services industry. Our technology and research and development director, Mr. Huang Rong Zhou, who joined our Company in 2010, has over 20 years of experience in technological research and development in the environmental protection industry. For more information on Mr. Huang’s experience, please refer to the section headed “Directors and Senior Management — Senior Management.” Our management team has demonstrated a loyal, continuing and enthusiastic commitment to our Company. We believe our management team’s dedication and vision have been keys to our success and will continue to provide us with a competitive edge over our competitors.

Our management team is supported by a skilled work force. As of December 31, 2010, we had more than 40 staff dedicated to the quality control or the engineering and maintenance of our treatment facilities. This large pool of engineering and technical workers is essential for the efficient and effective execution of our projects. We are dedicated to developing the expertise and know-how of our employees and we continue to invest in them through training.

BUSINESS STRATEGIES

We seek to enhance shareholder value by maintaining and enhancing our position in China's wastewater treatment and industrial water supply market, as well as gradually expanding into other environmental protection businesses. The strategies that we have adopted to attain this goal include the following principal elements:

Expand operations through organic growth

We intend to continue to focus on providing centralized industrial wastewater treatment and industrial water supply services and seek to expand our operations organically to increase our recurring earnings stream. We will continue to focus on areas that have the potential of requiring centralized treatment facilities, such as existing or potential specialized industrial parks or clusters. We believe companies operating in these areas can be well served by our centralized, customized and cost-efficient treatment solutions. We plan to leverage our existing strong track record and technical capabilities to expand our business. As part of our plans for expanding our wastewater treatment services business, we intend to continue our focus on industrial wastewater treatment projects, with BOO as our preferred project model. We will continue to pursue municipal wastewater treatment projects, which are carried out under the BOT project model if we consider such projects to be beneficial to us, taking into account factors such as profit margins and developing relationships with local governments.

We intend to further expand our operations in Guangdong province. We also intend to actively seek opportunities in central and western China and to capitalize on the anticipated industrial growth in these areas. We plan to replicate our BOO project model used for Guangzhou Xinzhou Industrial Park and provide a fully integrated and centralized system of facilities for a textile technology industrial park in Guangyuan city, as detailed in the section headed “— Our Projects — Sichuan Guangyuan Textile and Apparel Technology Industrial Park Treatment Facility.” We believe our strong track record and strong relationships with local governments will enable us to benefit from and capture opportunities in the growing wastewater treatment market in China.

Currently, we primarily service the textile industry and we have recently extended the provision of our services to customers engaged in the pulp and paper-making industry and the food and beverage industry by adapting and applying treatment technologies and processes suitable for such industries. We plan to expand our treatment services to other new industries with a view to enlarging our customer base and enhancing our profitability.

Continue to strengthen our R&D and technical capabilities

We plan to continue to invest in our R&D to maintain our competitiveness, including the following measures:

- Translate the results of our R&D capabilities and technical expertise into higher operating efficiency of our treatment processes, with the aim of executing customized projects in a cost-efficient and timely manner. For example, we plan to improve and modify our grid machines.
- Conduct tests at Yonghe Haitao Treatment Facility to improve our treatment efficiency by integrating the treatment of industrial and municipal wastewater.
- Further improve the quality of our post-treated wastewater in anticipation of increasingly stringent environmental standards in the PRC and to further increase our capacity to reclaim post-treated wastewater.

BUSINESS

- Enhance our ability to adapt and refine our technologies for different industries in anticipation of our expansion and changing market conditions and demand. We intend to continue focusing on customized approaches and solutions for our customers in various industries.
- Continue to collaborate with well-known universities and institutes in undertaking additional research and development projects, with the aim of enabling us to continue customizing and developing new technologies as well as adapting and applying such technologies to existing and new industries.

We believe our continuing efforts in strengthening our R&D and technical capabilities will enhance our ability to maintain our core competitive advantages in our business.

Enhance brand recognition

We believe that we enjoy strong brand recognition in the wastewater treatment and industrial water supply services industry, particularly among customers in the textile industry. Guangzhou Xintao is recognized by the Guangdong Province Environmental Protection Association as one of the pioneers that provide centralized wastewater treatment services for the textile and dyeing industry in Guangdong province. In 2007, Guangzhou Xintao was awarded the “2007 Key National Model Project for Practical Technology in Environmental Protection” (2007年國家重點環保實用技術示範工程) by China Environmental Protection Association (中國環境保護產業協會) in relation to our Guangzhou Xinzhou Industrial Park Treatment Facility.

As part of our marketing strategy, we will continue to enhance communication with the local governments through various channels such as site visits and discussion forums and introduce our successful experience. We also plan to continue applying for certain governmental subsidies for our R&D initiatives. We believe that such granting of subsidies by local governments will help enhance our brand recognition. It is also our strategy to continue providing municipal wastewater treatment services, which allows us to establish strong and stable relationships with local governments.

We also plan to continue to enhance our brand recognition in the PRC with our management’s execution capability and technical expertise and replicate our business model in Guangdong province in other parts of the PRC. We plan to fine-tune our marketing efforts by participating in national and regional industry events, increasing communication and liaison with various wastewater treatment services industry organizations and inviting relevant participants from such industry organizations to visit our treatment facilities to promote our brand recognition and reputation.

Selectively pursue acquisitions and strategic alliance opportunities

While we have experienced substantial organic growth over the past few years, we intend to adopt a disciplined and targeted strategy in selectively pursuing acquisitions and strategic alliance opportunities to further solidify our market position in the wastewater treatment and industrial water supply services industry.

We intend to focus on acquisitions and strategic alliance opportunities which can increase the capacity of our treatment facilities, provide complementary technologies and techniques, enhance our R&D capabilities, and allow us to access to new markets and local customer relationships which will complement our existing business operations. We will carefully consider and evaluate each potential acquisition or alliance on its merits to ensure that our existing business platform will derive appropriate benefits.

Expand into other environmental protection businesses such as municipal waste-to-energy and sludge treatment

We intend to expand our operations into other areas of the waste treatment industry such as sludge treatment and municipal waste-to-energy. Currently, we are treating sludge produced as a by-product of our own wastewater treatment process. Post-treated sludge may be used as a component of fuel substitute by blending with other fuels such as coal for use in certain manufacturing processes. We intend to apply for the Sludge Treatment Permit to operate our business in sludge treatment for licensed third parties. Upon receiving such permit, we expect to provide sludge treatment services to licensed third parties and sell the post-treated sludge products to licensed third parties. We plan to continue to improve our sludge treatment technology, so as to increase the capacity and efficiency of our sludge treatment process for our planned expansion into the sludge treatment business. For more details of our sludge treatment technologies, please refer to the section headed “— Research and Development”.

In addition, we plan to co-develop a municipal waste-to-energy project with Guangri Group in Zengcheng city, Guangdong province. For more details, please refer to the section headed “Business — Our Waste-to-Energy Project.”

We believe our planned expansion into other waste treatment areas will complement our existing business operations and diversify our sources of revenue.

OUR TREATMENT PROCESS FOR INDUSTRIAL WASTEWATER

Our principal focus is the provision of industrial wastewater treatment and industrial water supply services. Industrial wastewater usually contains organic and inorganic pollutants, including bacteria harmful to the natural environment. It is imperative that industrial wastewater is treated before it is discharged. There are significant differences in the nature and quantity of pollutants in the wastewater discharged from different industries due to different industrial products and manufacturing processes. Thus, we adopt various treatment processes to treat the wastewater discharged by each industry upon our analysis of the following factors: (i) the composition of the wastewater; (ii) the industry-specific discharge standard of pollutant levels in the treated wastewater; (iii) customers’ specifications; and (iv) the quantity of wastewater to be treated.

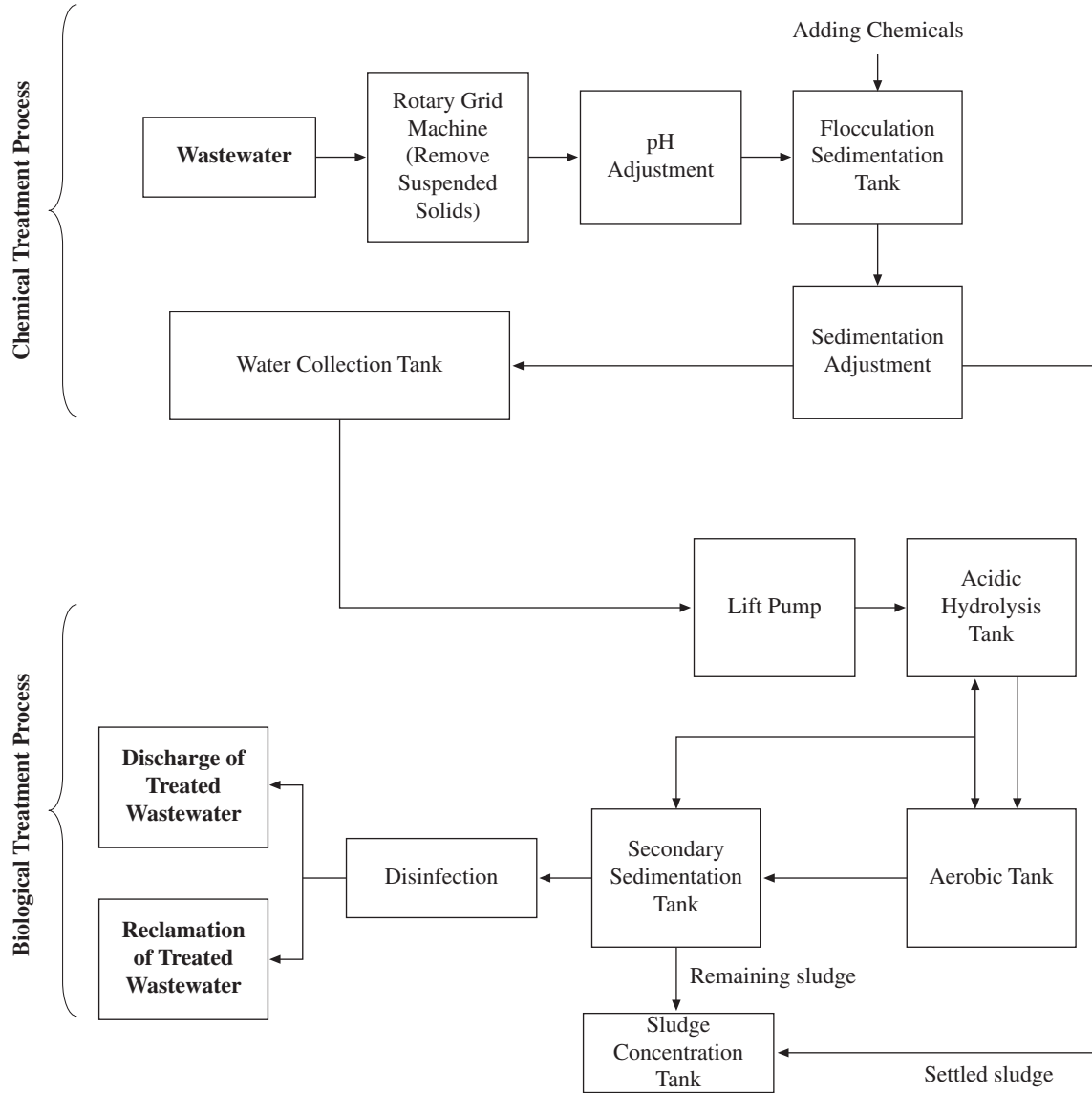
Our Technologies

It is difficult to treat industrial wastewater as its chemical composition is complex. Industrial wastewater contains more complex effluents as compared to feed water from rivers and the sea, as it may contain heavy metals and toxic matters. As industrial wastewater is often toxic and poisonous, the wastewater treatment system must be designed to largely remove or substantially reduce the concentration of these effluents to an acceptable level as required under respective environmental protection and public health laws and regulations. Our engineers must therefore first identify the compounds or chemicals particular to certain industries and understand their chemical properties before designing, fabricating, assembling, installing and commissioning our wastewater treatment system.

Some of the notable technological systems which we have utilized in our treatment of textile industrial wastewater include a type of textile and dyeing wastewater solid removal equipment, a type of anaerobic treatment equipment and a type of solar industrial sludge drying system. Such systems are designed especially for our customers in the textile industry to remove the concentration of effluents in their wastewater before it can be discharged safely into the waterways. On January 24, 2011, we submitted our patent applications to the State Intellectual Property Office of the PRC for the aforesaid technologies.

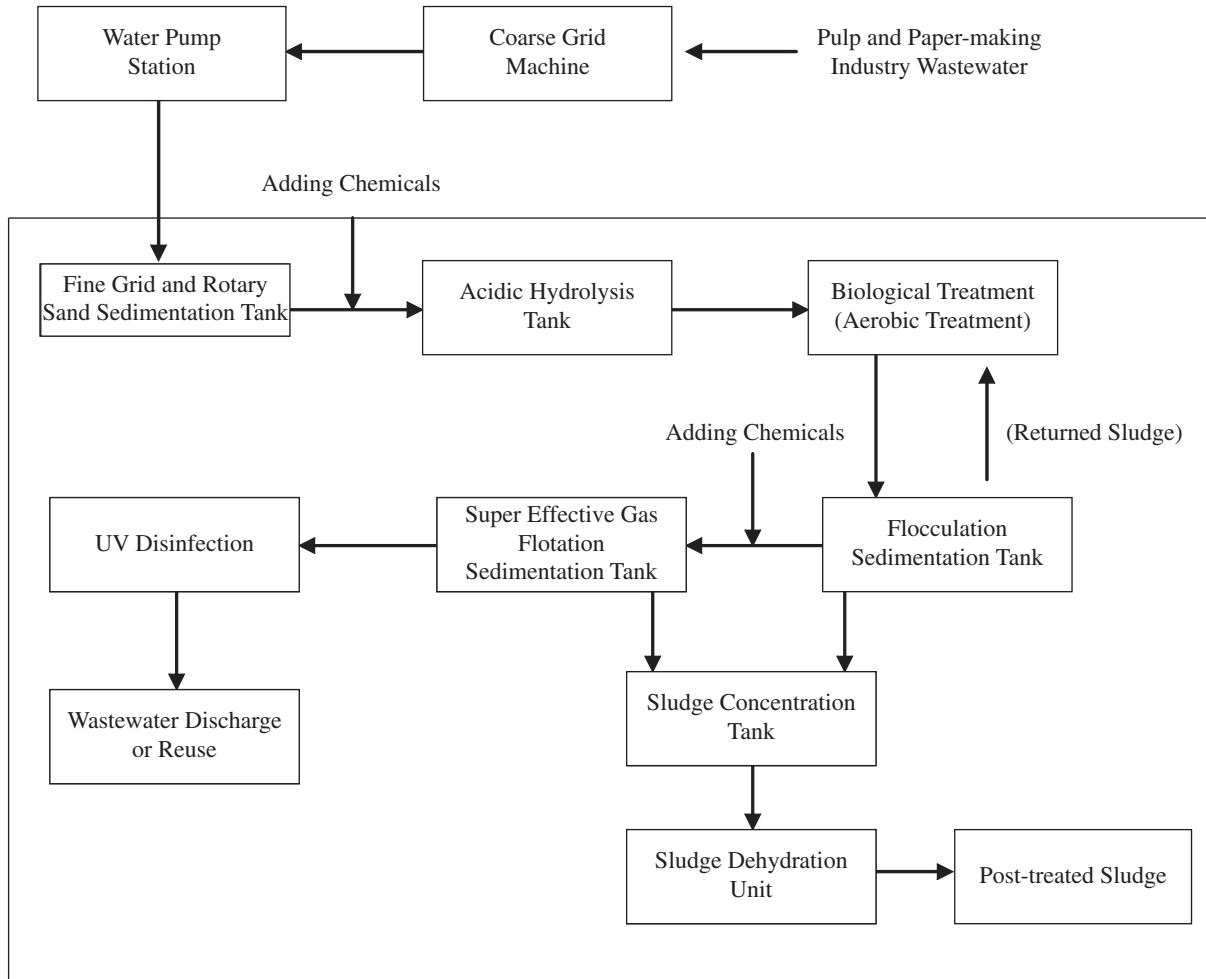
Technological Processes

Based on the characteristics of the wastewater, we utilize a combined chemical and biological wastewater treatment process for our customers in the textile industry. Such treatment process is illustrated below:



BUSINESS

We also utilize a combined chemical and biological wastewater treatment and sludge treatment process for our customers in the pulp and paper-making industry. The biological treatment process uses a combination of anaerobic hydrolysis and aerobic treatments. The anaerobic hydrolysis process can improve the biodegradability of wastewater while the aerobic sludge treatment can lower COD levels. The flocculation sedimentation process helps to ensure water discharge quality. The process is illustrated below:



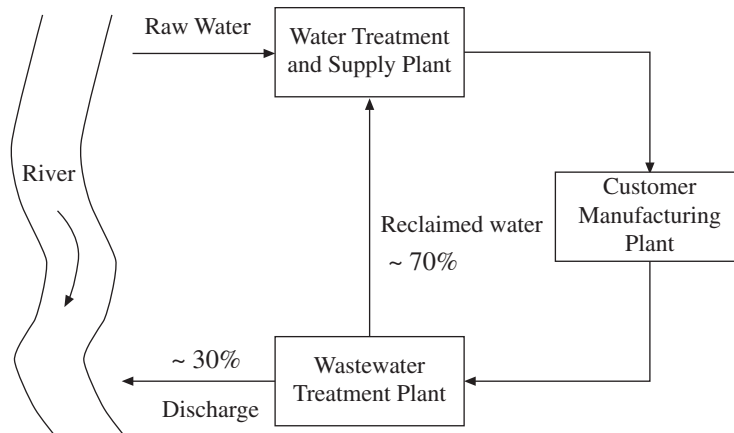
The current core technologies and techniques we adapt for treating wastewater in the pulp and paper-making industry can also be applied to other industries. We have the capability of treating wastewater produced from customers in the rice industry, the beverage production industry as well as the power cable manufacturing industry. As the composition of the wastewater resulting from these industries is generally not significantly more complex than wastewater resulting from the pulp and paper-making industry, such wastewater can be mixed and combined in the treatment process we currently use for the pulp and paper-making industry as shown above.

PROVISION OF TREATED WATER FOR INDUSTRIAL USE

In our Guangzhou Xinzhou Industrial Park Treatment Facility, we engage in a full cycle water recycling process to efficiently reclaim post-treated industrial wastewater, which allows us to use both raw water and post-treated wastewater to supply to our customers for their industrial use. Raw water extracted from the river contains suspended organic and inorganic solids, dissolved impurities such as minerals and gases, bacteria, viruses, toxic chemicals (released by wastewater discharged by industries that generate large quantities of toxic by-products) and other pollutants (discharged by industries and engines). Untreated water from rivers is not suitable for industrial use due to the presence of these impurities and therefore must undergo a treatment process in order to be suitable for industrial use according to our customers' needs and specifications. Similarly, post-treated industrial wastewater may still contain certain pollutants or chemicals which make such water unsuitable for immediate industrial usage, and therefore must also undergo a treatment process before being supplied to our customers for use in their manufacturing processes.

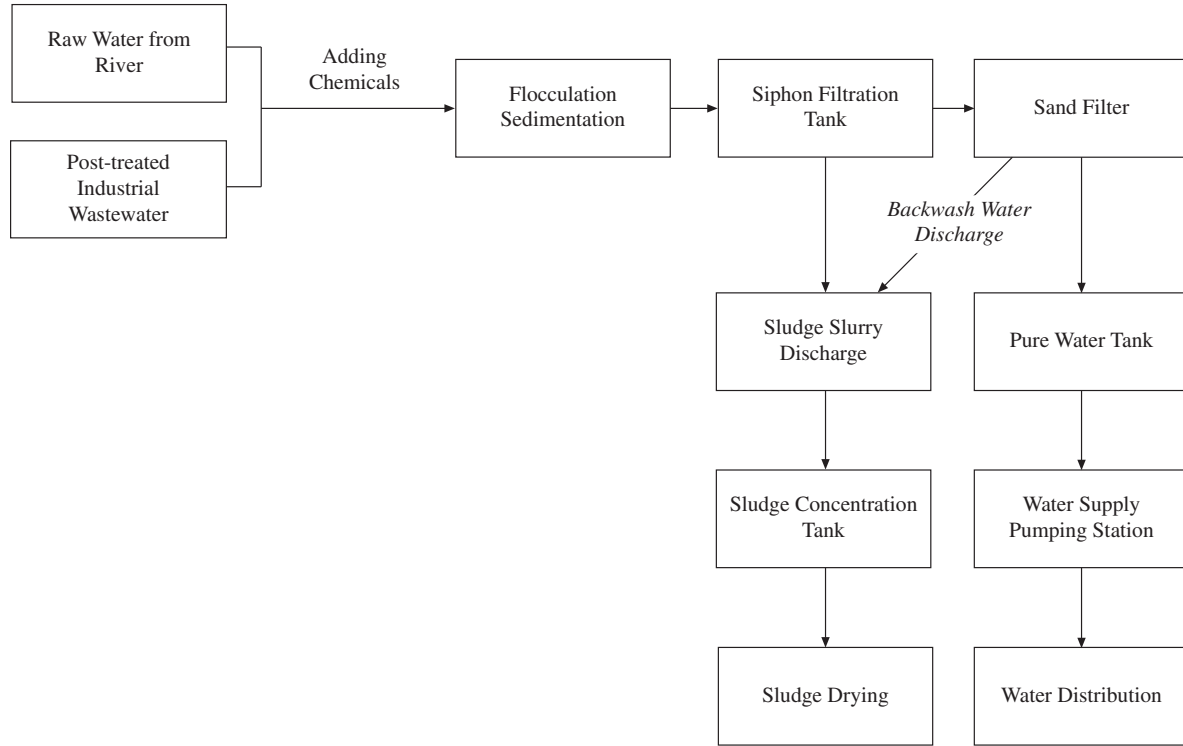
Wastewater produced in our customers' manufacturing processes will be treated in our wastewater treatment facilities according to the customers' requirements and specifications and applicable environmental standards. Approximately 70% of the post-treated wastewater in our Guangzhou Xinzhou Industrial Park Treatment Facility will be reclaimed by us for supplying to our customers as industrial water for use in their manufacturing processes. The remaining post-treated wastewater will be discharged to nearby waterways. We seek to replicate the project model of our Guangzhou Xinzhou Industrial Park Treatment Facility and provide an integrated and centralized system of facilities in our Sichuan Guangyuan Industrial Park Treatment Facility.

The following diagram illustrates our full cycle water reclamation process:



Technological Process

Our process for treating raw water and post-treated industrial wastewater for industrial use is as follows:

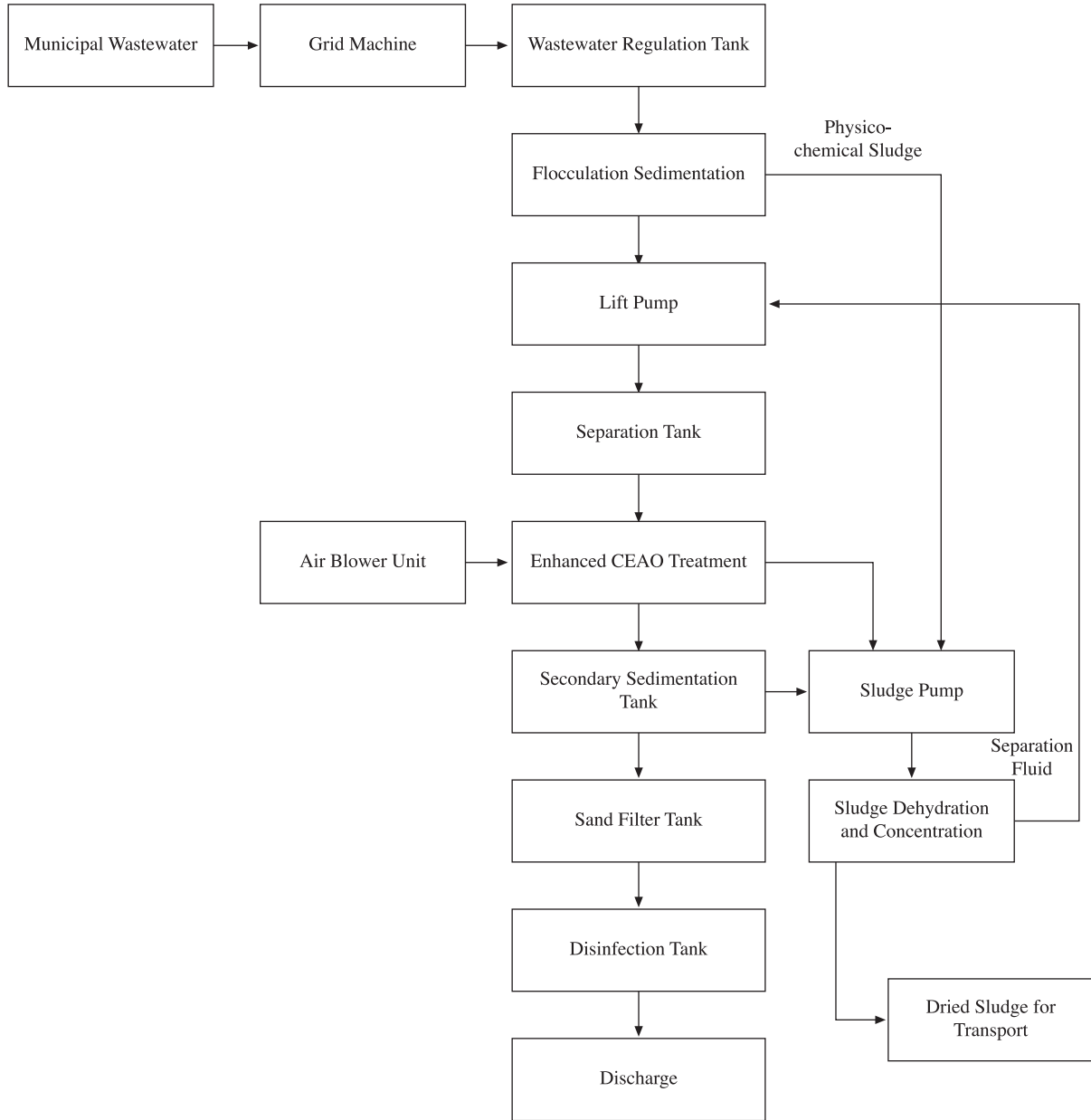


OUR TREATMENT PROCESS FOR MUNICIPAL WASTEWATER

Whilst the main stages involved in the treatment of municipal wastewater are similar to those of treating industrial wastewater, the technology applied differs as the nature and quantity of pollutants in municipal wastewater are different from that in industrial wastewater. Municipal wastewater contains a higher concentration of nitrogen and phosphorus compared to that in industrial wastewater. In addition, pollutants in municipal wastewater also contain a large amount of organic matter.

Technological Process

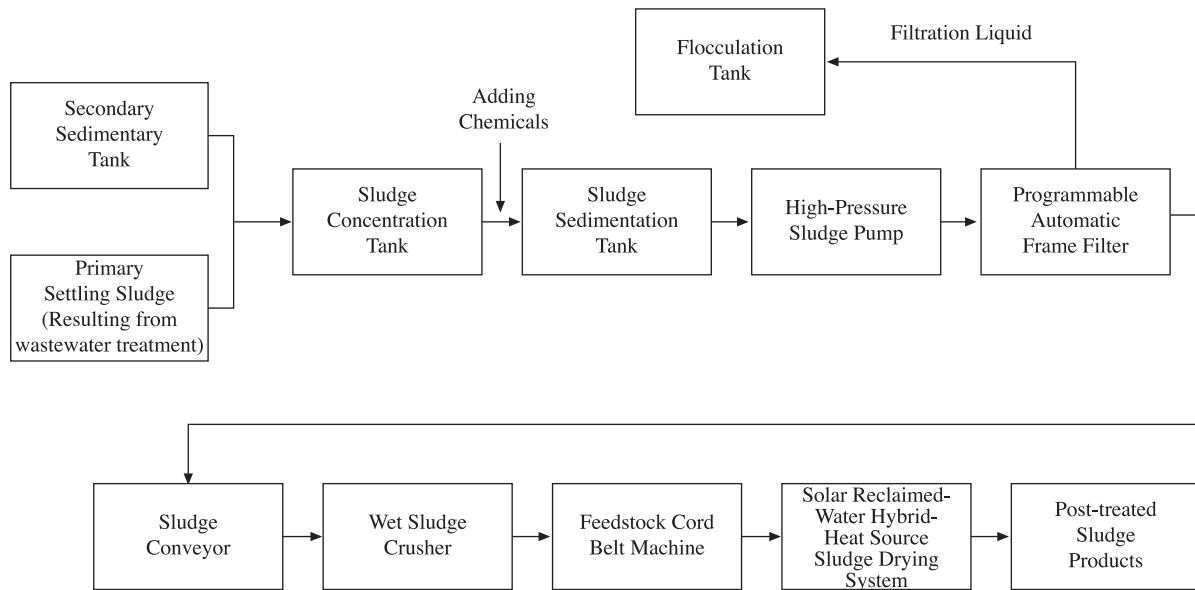
Based on the characteristics of municipal wastewater, we utilize a treatment technology targeted to treat the high concentration of nitrogen and phosphorus and to process the large amount of organic matter. Our treatment process for municipal wastewater is illustrated below:



OUR SLUDGE TREATMENT PROCESS

We currently treat sludge produced as a by-product of our wastewater treatment through a comprehensive treatment process, and give the post-treated sludge to a licensed third party for legitimate industrial use or disposal. Currently we do not sell post-treated sludge products. Our solar industrial sludge drying system used in our sludge treatment process mainly reduces the water content in the sludge. Post-treated sludge may be used as a component of fuel substitute by blending with additional fuels such as coal for use in certain manufacturing processes. We intend to continue to improve our sludge treatment technologies, particularly the “Solar Reclaimed-Water Hybrid-Heat Source Sludge Drying System” (太陽能中水雙熱源熱泵污泥乾化系統), with the aim to increase the capacity and efficiency of our sludge treatment process. For more details of our sludge treatment technologies, please refer to the section headed “— Research and Development.” In addition, sludge treatment requires the use of other technologies, such as sludge dehydration, anaerobic digestion, aerobic fermentation and dry heating.

Below is a workflow diagram of our sludge treatment process:



OUR PROJECTS

The tables below set forth information on our significant projects:

Project	Location	Project Model	Estimated/Actual Total Investment Amount ⁽¹⁾ (RMB in millions)	Industry	Description	Water Supply Capacity (m ³ per day)				Wastewater Treatment Capacity (m ³ per day)				End of Concession Period				
						Total Designed Capacity	Constructed capacity as of December 31, 2010 ⁽²⁾	Utilized capacity as of December 31, 2010 ⁽³⁾	Utilization Rate ⁽⁴⁾	Average daily volume of water supply for year 2010 (m ³)	Volume of water supply for the Track Record Period (m ³)	Total Designed Capacity	Constructed Capacity as of December 31, 2010 ⁽²⁾		Utilized capacity as of December 31, 2010 ⁽³⁾	Utilization Rate ⁽⁴⁾	Average daily volume of wastewater treated for year 2010 (m ³)	Volume of wastewater treated for the Track Record Period (m ³)
Guangdong province																		
Guangzhou Xinhou Industrial Park Treatment Facility (Phase I and Phase II) ⁽⁵⁾	Zengcheng city	BOO	140.0	Textile	Industrial wastewater treatment and water supply for industrial use	150,000	150,000	94,542	63% ⁽⁶⁾	90,413	16,775,454 (2008) 25,601,866 (2009) 33,000,324 (2010)	100,000	100,000	81,756	82%	78,749	14,589,876 (2008) 22,185,613 (2009) 28,743,338 (2010)	N/A
Longmen Xin Wastewater Treatment Facility (Phase I and Phase II) ⁽⁵⁾	Huizhou city	BOT	17.4	Municipal	Municipal wastewater treatment	—	—	—	—	—	—	20,000	20,000	19,031	95%	18,447	— (2008) 717,779 (2009) 6,733,088 (2010)	Phase I: August 12, 2009 Phase II: To be determined after passing of the trial operation period August 31, 2005
Yonghe Haitao Wastewater Treatment Facility — Phase I ⁽⁵⁾⁽⁷⁾	Zengcheng city	BOT ⁽⁸⁾	59.6	Municipal and commercial laundry	Municipal and industrial wastewater treatment	—	—	—	—	—	—	50,000	50,000	50,367	101%	26,085 ⁽⁹⁾	— (2008) — (2009)	August 31, 2005
Yonghe Haitao Wastewater Treatment Facility — Phase II	Zengcheng city	BOT	100.0	Textile	Industrial wastewater treatment	—	—	—	—	—	—	50,000	—	—	—	—	4,799,643 (2010)	To be determined after completion
Hunan province																		
Huizhua Tianyuan Wastewater Treatment Facility — Phase I ⁽⁵⁾⁽⁷⁾	Huizhua city	BOT	53.2	Municipal, Pulp and paper-making, food and beverage	Municipal and Industrial wastewater treatment	—	—	—	—	—	—	45,000	45,000	33,642	75%	25,780 ⁽⁹⁾	— (2008) — (2009)	April 30, 2015
Huizhua Tianyuan Wastewater Treatment Facility — Phase II	Huizhua city	BOT	45.0	Municipal, Pulp and paper-making, food and beverage	Municipal and Industrial wastewater treatment	—	—	—	—	—	—	55,000	—	—	—	—	4,743,807 (2010)	To be determined after completion
Sichuan province																		
Sichuan Guangyuan Textile and Apparel Technology Industrial Park Treatment Facility ⁽¹⁰⁾	Guangyuan city	BOO	208.0	Textile	Industrial wastewater treatment and water supply for industrial use	100,000	—	—	—	—	—	100,000	—	—	—	—	—	N/A
			623.2			250,000	150,000	94,542		90,413	16,775,454 (2008) 25,601,866 (2009) 33,000,324 (2010)	420,000	215,000	184,796		149,061	14,589,876 (2008) 22,903,392 (2009) 45,019,576 (2010)	

- (1) Total Investment Amount represents the design cost, construction cost, procurement cost and land use right (for the BOO projects) incurred or to be incurred in the design, development and construction of the respective projects.
- (2) Constructed capacity represents the total capacity of the relevant facility following completion of construction.
- (3) This was calculated based on the average daily volume of wastewater treated or industrial water supplied, as applicable, by the relevant facilities for the month ended December 31, 2010.
- (4) Utilization Rate is calculated by dividing utilized capacity as of December 31, 2010 by constructed capacity as of December 31, 2010. The utilization rate may not be reflective of the utilization rate for the full year of 2010.
- (5) Guangzhou Xinzhou Industrial Park Treatment Facility, Longmen Xilin Treatment Facility, Yonghe Haitao Treatment Facility (Phase I) and Huaihua Tianyuan Treatment Facility (Phase I) have commenced formal operations. For more details, please refer to the section "Business — Environmental Matters."
- (6) The utilization rate relating to the water supply capacity of Guangzhou Xinzhou Industrial Park Treatment Facility is based on the water supplied by the Guangzhou Kaizhou Water Supply Facility, which operates as a part of Guangzhou Xinzhou Industrial Park Treatment Facility, and was low primarily because the Guangzhou Kaizhou Water Supply Facility has yet to commence supplying industrial water to the adjacent area of Guangzhou Xinzhou Industrial Park. Guangzhou Kaizhou was designed with a capacity large enough to supply water to customers both within the industrial park and in the adjacent area, and it will not approach full capacity until pipes are connected to such adjacent area. Guangzhou Kaizhou intends to connect pipes from the facility to such adjacent area and upon completion, Guangzhou Kaizhou Water Supply Facility Industrial Park will supply industrial water to customers located in such adjacent area. Guangzhou Kaizhou Water Supply Facility is part of Guangzhou Xinzhou Industrial Park Treatment Facility and is not a standalone project.
- (7) The differences between the utilized capacity as at December 31, 2010 and the average daily volume of wastewater treated for the year 2010 for each of Yonghe Haitao Treatment Facility (Phase I) and Huaihua Tianyuan Treatment Facility (Phase I) are mainly due to these facilities having commenced operations only in the second half of 2010 and were treating a level of wastewater that was lower than what it would had the facilities been at mature stage of operations. Going forward, we expect the utilization rates of Yonghe Haitao Treatment Facility (Phase I) and Huaihua Tianyuan Treatment Facility (Phase I) to increase.
- (8) Our turnover from the provision of industrial wastewater treatment services to Tian Tian at Yonghe Haitao Treatment Facility (Phase I) is classified as turnover under BOO projects because our services to Tian Tian are governed by our separate agreement with Tian Tian and are not governed by the relevant BOT agreement pertaining to Yonghe Haitao Treatment Facility (Phase I).
- (9) Yonghe Haitao Treatment Facility (Phase I) and Huaihua Tianyuan Treatment Facility (Phase I) commenced operation only in the second half of 2010. As such, these figures were calculated based on the volume treated from July 2010 to December 2010.
- (10) On March 29, 2011, Hong Kong To Kee and Xi Zhou Enterprises entered into an agreement with, among others, the Sichuan Guangyuan Municipal Government and the Guangyuan Lizhou District Government. Pursuant to this agreement, we will develop wastewater treatment and industrial water supply facilities in Guangyuan's textile industrial park.

Project	Name of Project Company	Actual / Expected Date of Construction and Trial Operation Commencement	Estimated Outstanding Investment Amount as of December 31, 2010	Service Fee (per m ³) as of December 31, 2010 ⁽¹⁾	Turnover Generated				
					For the year ended December 31,		For the three months ended March 31,		
					2008	2009	2010	2010	2011
					HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Guangzhou Xinzhou Industrial Park Treatment Facility (Phase I and Phase II)	Guangzhou Xinzhou Environmental Protection Industrial Park Company Limited; Guangzhou Kaizhou Water Supply Company Limited; and Guangzhou Xintao Wastewater Treatment Company Limited	Date of construction commencement: Phase I: September 2003 Phase II: May 2008 Date of trial operation commencement: Phase I: January 2005 Phase II: March 2009	—	Guangzhou Kaizhou: RMB 1.1 Guangzhou Xintao: RMB5.1	—	—	—	—	—
				Construction services					
				Finance income					
				Wastewater treatment turnover	58,983	96,950	168,341	28,344	48,568
				Industrial water supply turnover	17,793	27,409	37,002	6,876	10,758
				Total	76,776	124,359	205,343	35,220	59,326

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Project	Name of Project Company	Actual / Expected Date of Construction and Trial Operation Commencement	Estimated Outstanding Investment Amount as of December 31, 2010	Service Fee (per m ³) as of December 31, 2010 ⁽¹⁾	Turnover Generated					
					For the year ended December 31,		For the three months ended March 31,			
					2008	2009	2010	2011		
Longmen Xilin Treatment Facility (Phase I and Phase II)	Longmen Xilin Wastewater Treatment Company Limited	Date of construction commencement: Phase I: May 2008 Phase II: October 2009 Date of trial operation commencement: Phase I: January 2009 Phase II: January 2010	—	RMB0.9	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
					4,694	10,208	6,776	1,682	—	
					116	541	1,106	231	316	
					—	1,249	5,475	1,301	1,390	
					—	—	—	—	—	
Total	4,810	11,998	13,357	3,214	1,706					
Yonghe Haitao Treatment Facility (Phase I and Phase II)	Guangzhou Haitao Environmental Protection Technology Company Limited	Date of construction commencement: Phase I: November 2009 Phase II: July 2011 Date of trial operation commencement: Phase I: October 2010 Phase II: January 2012	RMB100.0 million for Phase II	RMB0.8 ⁽²⁾	—	1,397	74,354	22,012	—	
					—	3	2,846	184	1,136	
					—	—	6,463 ⁽³⁾	—	4,739 ⁽³⁾	
					—	—	—	—	—	
					Total	—	1,400	83,663	22,196	5,875
Huaihua Tianyuan Treatment Facility (Phase I and Phase II)	Huaihua Tianyuan Wastewater Treatment Company Limited	Date of construction commencement: Phase I: July 2009 Phase II: July 2011 Date of trial operation commencement: Phase I: July 2010 Phase II: March 2012	RMB45.0 million for Phase II	RMB1.1	—	—	49,937	13,976	—	
					—	—	2,809	260	1,057	
					—	—	6,335	—	3,300	
					—	—	—	—	—	
					Total	—	—	59,081	14,236	4,357

Project	Name of Project Company	Actual / Expected Date of Construction and Trial Operation Commencement	Estimated Outstanding Investment Amount as of December 31, 2010	Service Fee (per m ³) as of December 31, 2010 ⁽¹⁾	Turnover Generated						
					For the year ended December 31,					For the three months ended March 31,	
					2008	2009	2010	2010	2011	2010	2011
			HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000			
Sichuan Guangyuan Textile and Apparel Technology Industrial Park Treatment Facility	Guangyuan Xizhou Environmental Enterprises Company Limited	Expected date of construction commencement: Phase I: June 2011 Expected date of trial operation commencement: Phase I: December 2011	RMB208.0 million	N/A	N/A	N/A	N/A	N/A	N/A		

- (1) For our BOT projects, the service fee is calculated based on the relevant BOT agreements. For our Guangzhou Xinzhou Industrial Park Treatment Facility, the service fees are calculated by dividing the total fees received for the year of 2010 by the actual volume of wastewater treated or water supplied, as applicable, for the year of 2010.
- (2) According to the Yonghe Haitao wastewater treatment service agreement, the service fee for treating municipal wastewater in Yonghe Haitao Treatment Facility is RMB0.8 per m³. When providing industrial wastewater treatment services to Tian Tian, the service fee is RMB23.0 per m³, pursuant to the agreement entered into between Guangzhou Haitao and Tian Tian on June 30, 2010.
- (3) The wastewater treatment turnover generated by Yonghe Haitao Treatment Facility (Phase I) includes (i) HK\$3,051,000 and HK\$2,896,000 received from the local government, which was classified as turnover from BOT project for the year ended December 31, 2010 and three months period ended March 31, 2011, respectively, and (ii) HK\$3,412,000 and HK\$1,843,000 received from Tian Tian for the year ended December 31, 2010 and three months period ended March 31, 2011, respectively.

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We set out below the details of our significant projects (including projects completed and currently in progress):

Guangzhou Xinzhou Industrial Park Treatment Facility

Our Guangzhou Xinzhou Industrial Park Treatment Facility located in Zengcheng city, Guangdong province, consists of two facilities that provide industrial wastewater treatment and industrial water supply services, namely, Guangzhou Xintao Wastewater Treatment Facility and Guangzhou Kaizhou Water Supply Facility. Guangzhou Xintao Wastewater Treatment Facility project involves the design, construction and operation of a wastewater treatment facility with a treatment capacity of 100,000 m³ per day. Guangzhou Kaizhou Water Supply Facility project involves the design, construction and operation of a water supply facility with an industrial water supply capacity of 150,000 m³ per day.

Guangzhou Xinzhou Industrial Park Treatment Facility is the only wastewater treatment and industrial water supply plant in Guangzhou Xinzhou Industrial Park. We, along with Guangzhou To Kee, had engaged in extensive discussions and planning with the local government in the design and development of Guangzhou Xinzhou Industrial Park and its treatment facility.

<i>Project Location</i>	Zengcheng city, Guangzhou, Guangdong province
<i>Project Companies</i>	Guangzhou Xinzhou Environmental Protection Industrial Park Company Limited, Guangzhou Kaizhou Water Supply Company Limited and Guangzhou Xintao Wastewater Treatment Company Limited
<i>Industry</i>	Industrial wastewater treatment and water supply for the textile industry. The wastewater treatment plant also processes waste leachate resulting from municipal waste.
<i>Project Model</i>	BOO
<i>Total Investment Amount</i>	RMB140.0 million
<i>Completion Year</i>	Phase I completed in 2005 and Phase II completed in 2009
<i>Highlights</i>	<p>This is our flagship centralized industrial wastewater treatment and water supply project. Its completion and operation demonstrate our ability to provide integrated water solutions for industrial use and carry out large-scale projects effectively. This project involved extensive discussion and planning with the local government in the development of the associated industrial park.</p> <p>Pursuant to an agreement with Guangzhou Municipal Waste Management Center, Guangzhou Xintao Wastewater Treatment Facility treats waste leachate, which is generally considered to be industrial wastewater as it contains high levels of ammonia nitrogen.</p> <p>As a complementary business, we intend to also provide heating services to our customers in Guangzhou Xinzhou Industrial Park. Please refer to the section headed “— Our Heating Services” for further details.</p>

BUSINESS

<i>Project Source</i>	At the time when the local government of Zengcheng city, Guangdong province had proposed to develop a textile industrial park in Zengcheng city, Guangdong province, Guangzhou To Kee had owned the relevant land and had a strong relationship with the local government of Zengcheng city, Guangdong province. As such, the local government and Guangzhou To Kee had engaged in discussion on the proposal to work together in developing the land into an environmental protection industrial park. Guangzhou To Kee successfully obtained the project primarily as a result of its strong relationship with the local government of Zengcheng city, Guangdong province.
<i>Designed Capacity</i>	<ul style="list-style-type: none">• Wastewater treatment capacity of 100,000 m³ per day• Industrial water supply capacity of 150,000 m³ per day
<i>Wastewater Treated</i>	Volume of wastewater treated during the Track Record Period: <ul style="list-style-type: none">• 14,589,876 m³ (2008)• 22,185,613 m³ (2009)• 28,743,338 m³ (2010)
<i>Water Supplied</i>	Volume of water supplied during the Track Record Period: <ul style="list-style-type: none">• 16,775,454 m³ (2008)• 25,601,866 m³ (2009)• 33,000,824 m³ (2010)
Longmen Xilin Treatment Facility	
	This project involves the design, construction and operation of a wastewater treatment facility with a treatment capacity of 20,000 m ³ per day located in Huizhou city of Guangdong province. The treatment process adopts technology which is targeted to treat municipal wastewater.
<i>Project Location</i>	Huizhou city, Guangdong province
<i>Project Company</i>	Longmen Xilin Wastewater Treatment Company Limited
<i>Industry</i>	Municipal wastewater treatment
<i>Project Model</i>	BOT
<i>Total Investment Amount</i>	RMB17.4 million
<i>Completion Year</i>	Phase I completed in 2009 and Phase II completed in 2010
<i>Highlights</i>	This project adopts the treatment technology targeted to treat the high concentration of nitrogen and phosphorus and to process the large amount of organic matter in municipal wastewater. Its completion demonstrates our ability to provide wastewater treatment solutions to municipal governments.

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<i>Project Source</i>	We identified this project through open tender announced by the local government. In identifying this project, we reviewed several main factors such as the attractive tender price and the lower labor cost in the region. After considering the project to be feasible and suitable, we submitted our tender to the local government and successfully secured the tender for this project.
<i>Designed Capacity</i>	Wastewater treatment capacity of 20,000 m ³ per day
<i>Wastewater Treated</i>	Volume of wastewater treated during the Track Record Period: <ul style="list-style-type: none">• — (2008)• 717,779 m³ (2009)• 6,733,088 m³ (2010)

Yonghe Haitao Treatment Facility (Phase I)

This project involves the design, construction and operation of a wastewater treatment facility to be constructed in two phases with an expected total wastewater treatment capacity of 100,000 m³ per day located in Zengcheng city, Guangdong province. In Phase I of this project, the treatment process adopts the technology targeted to treat a mixture of municipal and industrial wastewater with a treatment capacity of 50,000 m³ per day.

<i>Project Location</i>	Zengcheng city, Guangzhou, Guangdong province
<i>Project Company</i>	Guangzhou Haitao Environmental Protection Technology Company Limited
<i>Industry</i>	Municipal and industrial wastewater treatment
<i>Project Model</i>	BOT
<i>Total Investment Amount</i>	RMB59.6 million
<i>Completion Year</i>	2010
<i>Highlights</i>	Phase I of this project is the initial stage for the development and operation of a large-scale facility for treating both industrial and municipal wastewater. In Phase I of this project, we provide municipal wastewater treatment solutions to the local government of Xintang town in Zengcheng city, Guangdong province as well as industrial wastewater treatment solutions to Tian Tian.

<i>Project Source</i>	This BOT project involves the provision of both municipal and industrial wastewater treatment services. We identified this project through an open tender announced by the local government. In identifying this project, we considered several factors, including the project's potential for large-scale industrial wastewater treatment, the possibility of our success in securing this project, and the major industry segment of the location of the project site. We successfully won the bidding for this project among other competitors.
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BUSINESS

Designed Capacity Wastewater treatment capacity of 50,000 m³ per day in Phase I

Wastewater Treated Volume of wastewater treated during the Track Record Period:

- — (2008)
- — (2009)
- 4,799,643 m³ (2010)

Yonghe Haitao Treatment Facility (Phase II)

Phase II of this project involves the design, construction and operations of a wastewater treatment facility for customers in the textile industry with a total treatment capacity of 50,000 m³ per day located in Xintang town. The treatment process will adopt our technology in treating textile industrial wastewater. We have completed discussion with the local government with respect to the design and planning of the project.

Project Location Zengcheng city, Guangzhou, Guangdong province

Project Company Guangzhou Haitao Environmental Protection Technology Company Limited

Industry Industrial wastewater treatment for textile industry

Project Model BOT

Total Investment Amount Estimated RMB100.0 million

Estimated Completion Year 2011

Highlights Phase II of this project involves the provision of industrial wastewater treatment services to an existing industry cluster of textile companies located in Xintang town in Zengcheng city. Completion of Phase II of this project would further demonstrate our ability to provide large-scale, centralized municipal and industrial wastewater treatment services.

Project Source Due to the existence of an industry cluster of textile companies near the site of Yonghe Haitao Treatment Facility, we considered it feasible and suitable to build a second phase of this treatment facility to provide large scale centralized wastewater treatment services to customers in such industry cluster.

Designed Capacity Wastewater treatment capacity of 50,000 m³ per day

Wastewater Treated —

BUSINESS

Huaihua Tianyuan Treatment Facility (Phase I)

This project involves the design, construction and operation of a wastewater treatment facility to be constructed in two phases with an expected total wastewater treatment capacity of 100,000 m³ per day located in Huaihua city of Hunan province. It provides wastewater treatment services to an existing industrial park with companies operating mainly in the pulp and paper-making, and food and beverage processing industries. We are currently providing industrial wastewater treatment services at this facility. We intend to begin providing municipal wastewater treatment services upon installation of the necessary infrastructure by the local government.

<i>Project Location</i>	Huaihua city, Hunan province
<i>Project Company</i>	Huaihua Tianyuan Wastewater Treatment Company Limited
<i>Industry</i>	Municipal and industrial wastewater treatment
<i>Project Model</i>	BOT
<i>Total Investment Amount</i>	RMB53.2 million
<i>Completion Year</i>	2010
<i>Highlights</i>	This is a large-scale project which adopts a combination of chemical and biological wastewater treatment and sludge treatment processes especially used to treat wastewater from the pulp and paper-making industry. This project signifies our milestone in expanding our wastewater treatment services beyond the textile industry into other industries, as well as developing and applying technologies to combine the treatment of wastewater from different sources such as industrial wastewater from multiple industries and municipal wastewater.
<i>Project Source</i>	This BOT project was originally acquired by a third party through an open tender process; however, as such third party did not have sufficient capital, we acquired the project with the consent of the Huaihua Industrial Park Management Committee
<i>Designed Capacity</i>	Wastewater treatment capacity of 45,000 m ³ per day in Phase I
<i>Wastewater Treated</i>	Volume of wastewater treated during the Track Record Period: <ul style="list-style-type: none">• — (2008)• — (2009)• 4,743,507 m³ (2010)

BUSINESS

Huaihua Tianyuan Treatment Facility (Phase II)

Phase II of this project will involve the design, construction and operation of a wastewater treatment facility with a capacity of 55,000 m³ per day located in Huaihua city of Hunan province. We have been in discussion with the local government since February 2011 with respect to the design and planning of the project.

<i>Project Location</i>	Huaihua city, Hunan province
<i>Project Company</i>	Huaihua Tianyuan Wastewater Treatment Company Limited
<i>Industry</i>	Industrial wastewater treatment mainly for pulp and paper-making industry, together with food and beverage processing industry and municipal wastewater treatment
<i>Project Model</i>	BOT
<i>Total Investment Amount</i>	Estimated RMB45.0 million
<i>Estimated Completion Year</i>	First quarter of 2012
<i>Highlights</i>	Phase II of this project involves the provision of industrial wastewater treatment and municipal wastewater treatment services located in Huaihua city. Completion of both Phase I (as described above) and Phase II of this project would further signify our milestone in expanding our wastewater treatment services beyond the textile industry into other industries, as well as applying technologies to combine the treatment of wastewater from different industries and municipal wastewater on a large-scale and in a centralized manner.
<i>Project Source</i>	Please see above regarding Phase I of Huaihua Tianyuan Treatment Facility.
<i>Designed Capacity</i>	Wastewater treatment capacity of 55,000 m ³ per day in Phase II
<i>Wastewater Treated</i>	—

Sichuan Guangyuan Textile and Apparel Technology Industrial Park Treatment Facility

This project is currently under discussion with the local government. This project will involve the design and construction of a 100,000 m³ per day industrial wastewater treatment facility and a 100,000 m³ per day industrial water supply facility located in Guangyuan city.

<i>Project Location</i>	Guangyuan city, Sichuan province
<i>Project Company</i>	Guangyuan Xizhou Environmental Enterprises Company Limited
<i>Industry</i>	Industrial wastewater treatment and water supply for textile industry
<i>Project Model</i>	BOO

BUSINESS

<i>Total Investment Amount</i>	Estimated RMB208.0 million
<i>Estimated Completion Year</i>	Phase I (wastewater treatment and water supply capacity of 50,000 m ³ per day each) is estimated to be completed near the end of 2011
<i>Highlights</i>	This will be a large-scale integrated industrial wastewater treatment and water supply facility with an estimated total investment amount of RMB208.0 million. We seek to replicate our project model of Guangzhou Xinzhou Industrial Park Treatment Facility and provide an integrated and centralized system of facilities in this project. We also intend to utilize the technologies targeted for treating textile industry wastewater in this project.
<i>Project Source</i>	The local government of Sichuan Guangyuan had visited Guangzhou Xinzhou Industrial Park Treatment Facility.
<i>Designed Capacity</i>	<ul style="list-style-type: none">• Wastewater treatment capacity of 100,000 m³ per day• Industrial water supply capacity of 100,000 m³ per day
<i>Wastewater Treated</i>	—
<i>Water Supplied</i>	—

Proposed Qingyuan Jingu Wastewater Treatment Facility

Pursuant to a letter of intent entered into between Xi Zhou Enterprises and Qingyuan Jingu Science Park Construction Office (清遠市金穀科學城建設指揮部) (“Qingyuan Jingu Construction Office”) on April 21, 2011 (the “LOI”), Xi Zhou Enterprises would be responsible for making arrangements to build a wastewater treatment facility (“Qingyuan Jingu Wastewater Treatment Facility”) for Qingyuan Jingu Science Park, a science park located in Qingyuan, Guangdong province. According to the LOI, the science park is expected to cover a total site area of 13.3 million square meters with a planned gross floor area of 3.5 million square meters, with the initial phase expected to cover a total site area of 1.3 million square meters. The total investment amount of Qingyuan Jingu Science Park is expected to be over RMB30 billion. Qingyuan Jingu Wastewater Treatment Facility is expected to cover a site area of approximately 133,333 square meters, with a total designed wastewater treatment capacity of 100,000m³ per day, 40% of which would be used for industrial wastewater treatment, with the remaining 60% to be used for municipal sewage treatment. Xi Zhou Enterprises is responsible for the construction costs and construction of Qingyuan Jingu Wastewater Treatment Facility, the first phase of which is to have a capacity of 50,000m³ per day. Qingyuan Jingu Construction Office is responsible for, among others, providing land for the construction of the wastewater treatment facility, applying and obtaining approvals for the environmental impact assessment, the pollutants discharge quota and the installation of treated wastewater discharge outlets. We understand from our PRC legal counsel that this letter of intent is non-binding as to both parties. We will be negotiating with Qingyuan Jingu Construction Office on a formal agreement to be entered into between the parties on the further development of the proposed project.

OUR SLUDGE TREATMENT PROJECT

We currently treat sludge produced as a by-product of our wastewater treatment through a comprehensive treatment process, and give the post-treated sludge to a licensed third party for legitimate industrial use or disposal. Currently we do not sell post-treated sludge products. We intend to apply for the Sludge Treatment Permit in order to operate our business in sludge treatment for licensed third parties.

Our sludge treatment facilities are located in our Guangzhou Xintao Industrial Park Treatment Facility. The planned design capacity of sludge treatment for third parties will be approximately 90 tonnes per day for post-treated sludge having water content of no more than 45%. We intend to use the solar sludge drying technology in the sludge treatment project. Additional facilities and equipment, such as the post-treated sludge handling unit and distribution pipes, will be required for our expansion in sludge treatment for third parties. The estimated investment amount is approximately RMB25.8 million. We plan to complete the construction of the entire sludge drying system within 2011 and thereafter apply for the Sludge Treatment Permit in accordance with the requirements of the Guangdong Province Solid Waste Treatment Administrative Licensing Implementation Measures (《廣東省嚴控廢物處理行政許可實施辦法》). Upon receiving such permit, we may provide sludge treatment services to licensed third parties.

According to the Guangdong Province Solid Waste Treatment Administrative Licensing Implementation Measures (《廣東省嚴控廢物處理行政許可實施辦法》), in order for an applicant to obtain a Sludge Treatment Permit, the following requirements must be met:

- (1) the applicant must have more than two technicians with at least two years of experience in solid waste pollution treatment and an Environmental Engineering qualification or a relevant qualification with intermediate work title;
- (2) the project site selection shall strictly conform to the provincial waste treatment planning, and the treatment facilities and technologies shall strictly conform to the provincial waste treatment technical specifications as well as meet the requirements for trial operations and formal operations; and
- (3) the applicant must have rules and regulations in place that guarantee safe waste disposal and have safety measures for emergency.

The administrative procedures in relation to the application for a Sludge Treatment Permit include the following:

- (1) The applicant shall submit a written application with supporting documents to the relevant environmental protection authority at or above the county level;
- (2) The relevant environmental protection authority shall complete the preliminary examination within 20 days after receiving the application and then report to the environmental protection authority at provincial level for determination;
- (3) The relevant environmental protection authority at the provincial level shall conduct an on-site inspection on the premises and facilities of the applicant. Such environmental protection authority shall make the decision within 20 days as to whether such permit is to be issued and will announce the decision accordingly. If approved, the relevant environmental protection authority shall grant the Sludge Treatment Permit to the qualified applicant.

We expect to obtain the Sludge Treatment Permit within 2011.

BUSINESS

We increased our registered capital in May 2011 in connection with our plan to expand into sludge treatment as well as heating services. Under the relevant PRC laws, the procedures for a foreign-investment enterprise to increase its registered capital are as follows:

- (1) Amend the articles of association of the foreign-investment enterprise;
- (2) Apply for approval from the relevant foreign-investment authority;
- (3) Pay at least 20% of the increase in the amount of registered capital increase and complete the verification procedures to obtain the capital verification report; and
- (4) Register with the administration authority for industry and commerce for such increase in the registered capital and change of the business license.

OUR HEATING SERVICES

On January 26, 2011, Guangzhou Xintao entered into an agreement and a supplementary agreement for the provision of heating services with Guangzhou Development Xintang Heat Co. Ltd. The provision of central heating services was planned to be a part of Guangzhou Xinzhou Industrial Park at the outset, and was delayed because the conditions within the park necessary for such implementation were not in place at the time. As such, the individual facilities within the park had installed small-scale boilers to meet their respective heating needs. We are pursuing this project because conditions within the park have now made it more feasible for central heating services to be provided within the park, and the relevant environmental protection bureau has requested that factories replace small-scale boilers with a central heating service as soon as possible. Pursuant to these agreements, we intend to procure heating from Guangzhou Development Xintang Heat Co. Ltd., which provides heating services to customers outside the industrial park, but does not currently provide any such service within the park, and in turn provide heating services to our customers in Guangzhou Xinzhou Industrial Park. Guangzhou Xintao has already applied to and received approval from the relevant authorities to expand its scope of business to include the provision of central heating services. Our PRC legal counsel has advised us that no additional special permits or licenses are required for Guangzhou Xintao to provide central heating services in Guangzhou Xinzhou Industrial Park. We believe that, by providing central heating services in Guangzhou Xinzhou Industrial Park, we can benefit both the environment and the companies within the park, including Guangzhou Xintao. Xintang Heat, an independent third party, is a subsidiary of Wang Long Thermal Power Company (旺隆熱電公司), which is a subsidiary of the Guangzhou Development Group (廣州發展集團). Xintang Heat is engaged in the business of services such as steam supply, air conditioning supply and sales, heating network maintenance and repair, heat engineering technology consultation and technical services. Xintang Heat owns a power plant located near the Guangzhou Xinzhou Industrial Park.

The estimated investment amount for this heating services line is approximately RMB15.0 million and we expect to commence providing such heating services in the second half of 2011. The main revenue source will be payments to be received from customers for the provision of heating services. We intend to fund this heating services line using internal resources. We intend to recruit professional skilled technicians to operate such heating services line. Our Directors are of the view that we have sufficient financial resources and managerial expertise to develop this heating services business. According to our PRC legal counsel, the agreement entered into in relation to the provision of heating services is legally binding. We increased our registered capital in May 2011 in connection with our plan to expand into sludge treatment as well as heating services. The procedures under the relevant PRC laws for a foreign-investment enterprise to increase its registered capital, are detailed in the section headed “Business — Our Sludge Treatment Project.” No other specific approval or permit is required for the heating services project.

OUR WASTE-TO-ENERGY PROJECT

We intend to enter into the waste-to-energy business. On December 18, 2010, pursuant to a joint venture MOU entered into by Guangzhou To Kee and Guangri Group, an independent third party, both parties agreed to co-develop a municipal waste-to-energy project in Zengcheng city, Guangdong province. This project is expected to cover a land area of 500 acres and manage 4,000 tonnes of waste per day. It is proposed that the parties will establish a project company in which each party holds 50% interest. Guangzhou To Kee will cooperate with Guangri Group in the daily management of the project company as well as the construction and operation of the project. Guangri Group will be responsible to provide the technology and expertise required for the waste-to-energy project. We are responsible for obtaining the relevant approvals and construction permits for the project, as well as handling land acquisitions and public relations matters in Zengcheng city, Guangdong province, while Guangri Group is responsible for obtaining the relevant approvals, construction permits and other related technical matters in Guangdong province and Guangzhou city. Guangri Group is a state-owned enterprise in Guangdong province. Guangri Group manufactures primarily elevators, subway platform screen doors, enclosed waste collection system and waste incineration power generation systems.

In 2010, Guangzhou To Kee proposed to the local government of Zengcheng city, Guangdong province to increase its focus on environment protection. Guangri Group, which holds the concession right for municipal waste management in Guangzhou, had sought to participate in the municipal waste management project in Zengcheng city, Guangdong province. After discussions, Guangri Group and Guangzhou To Kee entered into a memorandum of understanding, or MOU. Guangzhou To Kee, rather than Guangzhou Xintao, had entered into the MOU because it would be beneficial to Guangzhou Xintao to leverage Guangzhou To Kee's reputation and brand name in the environmental protection industry. After the Reorganization, on January 5, 2011, Guangzhou Xintao entered into a separate agreement with Guangzhou To Kee, pursuant to which Guangzhou To Kee transferred all the rights and obligations of the MOU to Guangzhou Xintao. Such transfer of rights and obligations did not involve any transfer fees and had been expressly acknowledged by Guangri Group. Pursuant to the MOU, since Guangri Group has the expertise in operating a waste incineration power and generation plant and also possesses waste incineration technology and equipment, Guangri Group will be responsible to provide the technology and expertise required for the waste-to-energy project. We intend to leverage the expertise and experience that Guangri Group has in the area of waste incineration. Guangzhou To Kee is required to obtain the relevant local approvals and construction permits for the project, as well as land acquisitions and public relations matters in Zengcheng city, Guangdong province, while Guangri Group is responsible for obtaining the relevant municipal and provincial level approvals, construction permits and other related technical matters in Guangdong province and Guangzhou city. The first phase of the municipal waste-to-energy project is expected to have the capacity to treat 2,000 tonnes of municipal waste per day. The estimated investment amount is approximately RMB800.0 million, borne in equal proportions by the joint venture parties, of which we expect to fund RMB120.0 million from our own resources, in line with our intention to fund 30% of our total investment amounts from our own resources. We expect the project to commence operations in 2013.

According to our PRC legal counsel, the MOU, as well as the abovementioned agreement entered into in relation to the waste-to-energy project, is legally binding and enforceable under the PRC law. With respect to the waste-to-energy project, in addition to the approval and licenses required for a company's general business operations, the following specific permits shall be obtained: (i) project approval made by the relevant development and reform authority; (ii) an environmental impact assessment report as approved by the relevant environmental protection authority; (iii) a pollutants discharge permit as issued by the relevant environmental protection authority; and (iv) an electric power business permit issued by the electric power administration authority. Our PRC legal counsel is of the opinion that there is no legal impediment for us to obtain such permits, certificates and approvals for carrying out these projects.

BUSINESS

We believe the development of such waste-to-energy project will complement our existing business operations as we gradually expand into other waste treatment businesses.

While we believe our planned expansions to sludge treatment, heating and waste-to-energy services will complement our existing business operations, we do not have operational experience in providing sludge treatment services to third parties, operating a waste-to-energy project, or providing heating services. Please refer to the section headed “Risk Factors — Risk Factors Relating to Our Business — Our plans to expand the scope of our business to include sludge treatment, municipal waste-to-energy and heating services may not be successful and we may not be able to realize the anticipated benefits from such expansion.”

OUR PROJECT MANAGEMENT PROCESS

We focus primarily on the provision of wastewater treatment and industrial water supply services to existing or potential industry clusters or industrial parks. We also take on certain projects to provide municipal wastewater treatment services if we consider such projects to be beneficial to us, taking into account factors such as profit margins and developing relationships with local governments. Our experience in project management encompasses the whole value chain of the wastewater treatment and industrial water supply services industry, including conceptualization, project design, execution and management, procurement and construction, as well as the ongoing operation and management of the wastewater treatment and water supply facilities.

Project Models

Our project models are divided into two principal categories: (i) Build-Own-Operate (“BOO”) projects; and (ii) Build-Operate-Transfer (“BOT”) projects. We may use either project model to provide industrial wastewater treatment services in a large-scale and centralized manner to customers in industrial parks or clusters, depending on the circumstances. We currently only use the BOT project model to provide municipal wastewater treatment services. Our BOT projects involve the design, construction and operation of wastewater treatment plants where concession is granted (usually ranging from 25 to 30 years) by the local government according to the relevant concession agreement. Our BOO projects are built, owned and operated by us.

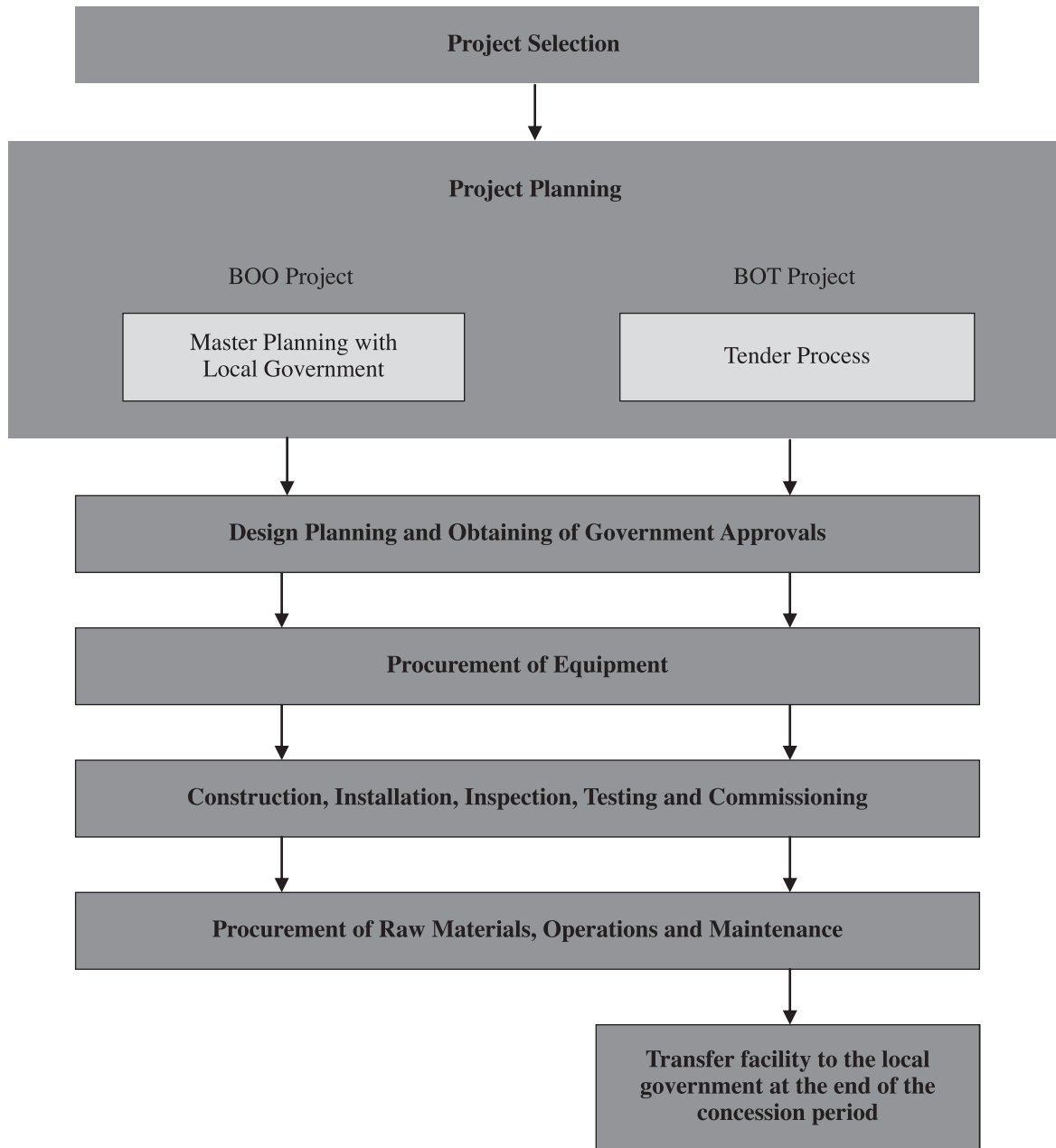
The accounting entries for a BOT project are different from those for a BOO project. These differences affect our turnover recognition, cash flows and profitability during the relevant periods. Our BOT projects are considered as service concession arrangements under HK (IFRIC) 12. As such, we recognize turnover from a BOT project during both the construction phase and the operational phase. We use an independent property valuer, DTZ, to value the construction services that form a basis for us to estimate the turnover for the construction phase for a BOT project. For a BOO project, we recognize turnover only during its operational phase and capitalize construction costs as fixed assets. For more details on the differences in accounting treatment between our BOO and BOT projects and other differences between the BOO and BOT models, please refer to the sections headed “Financial Information — Description of Selected Income Statement Line Items — Turnover” and “Industry Overview — China’s Wastewater Treatment Industry — Wastewater Treatment Operating Modes.”

Project Management

The key elements of our project management process for our projects include: (i) project selection; (ii) project planning; (iii) design planning and obtaining of government approvals; (iv) procurement of equipment for construction of the treatment and water supply facilities; (v) construction, installation, inspection, testing and commissioning of the facilities; and (vi) procurement of raw materials and operations and maintenance of the facilities. For our BOT projects, the treatment facilities will be transferred to the local government at the end of the concession period and in some cases, we are required to provide a warranty period following the transfer.

BUSINESS

The following is an illustration of our project management process:



Project Selection

Prospective projects are first screened by our operation department using a set of market-driven and return-focused criteria. In identifying a prospective project, our operation department will review the following main factors:

- the project's potential for centralized industrial wastewater treatment facilities;
- the prospective profitability of the project; we generally focus on projects with a contract value and projected return in excess of internally determined minimum thresholds;
- the credit-worthiness of the potential customer and the customer's source of funding for the project;
- the composition of the wastewater and the resulting technical requirements of the project;
- the specific requirements of the customer;
- the available treatment technologies and alternatives;
- the competition for the project;
- the possibility of our success in securing the prospective project;
- the projected cost of building and operating the facilities;
- the applicable regulatory standards; and
- the general economic development and major industry segment of the location of the project site.

Our operation department provides details of those projects which it considers merit further investigation to our management which then decides which projects warrant further examination. We maintain a list of projects which we review on a regular basis to monitor their status and development. We assign priority to various projects and allocate resources to those we will pursue.

During the initial project proposal process, we typically conduct a feasibility study where we examine the site location, assess the project's environmental impact and consider several factors such as the existing or potential industries in the areas, the costs of construction and required equipment, potential turnover as well as profit margin. We also take into account other factors, including the costs of land acquisition for BOO projects and the contract value for BOT projects. For BOO projects, after sufficient information has been compiled, if we consider the project to be feasible and suitable, we will submit our project application to the relevant local government. For BOT projects, when sufficient tender information has been collected and compiled, our management team, with the advice of our operation department, will decide the projects which we will actively pursue and for which we will submit a tender. We consider our ability to choose the right projects based on the results of our feasibility study to be a cornerstone of our operational success and profitability.

The acquisition of BOO projects usually involves the following procedures: (i) obtaining of the land use right; (ii) various approval processes; (iii) construction of the relevant facilities; and (iv) operation of the relevant facilities. Procedures for the acquisition of BOT projects usually include: (i) signing of the concession agreement and obtaining of concession rights; (ii) obtaining of the land use right from the assignor; (iii) various approval processes; (iv) construction of the relevant facilities; (v) operations of the relevant facilities; and (vi) transfer of the relevant facilities at the end of the concession term. Our PRC legal counsel is of the opinion that the acquisition of our projects is valid and in compliance with the relevant PRC laws. We are not aware of any disputes, claims or complaints in relation to the acquisition of projects by the Group.

Project Planning

Master planning with local government for BOO projects

Our BOO projects are based on discussions and planning with the local government so as to increase the efficiency of the centralized and integrated wastewater treatment and industrial water supply facilities. We work with the local government in the conceptualization, master-planning, design and development of the industrial parks as well as the wastewater treatment and industrial water supply facilities located in such industrial parks. In general, the local governments will assist us in the procurement of necessary approvals for each project area and arrangement of the compilation of the environmental impact assessment report. We are responsible for designing, building and operating the wastewater treatment and water supply plants. We also collaborate with the local government in attracting potential customers to move into the industrial parks. In determining the various ways of attracting potential customers to move into the industrial parks, we engage in close discussions with the local government based on the results of our feasibility study. In addition, with the assistance from the local government, we conduct further studies to assess whether the proposed treatment system is suitable and adequate to meet our customers' needs. Following the master planning stage, we discuss with the local government and prepare detailed plans for the design and construction of the treatment facilities. Please refer to the section headed “— Design Planning and Obtaining of Government Approvals”.

Tender process for BOT projects

Our operation department, which undertakes marketing responsibilities, tracks and sources potential projects in the PRC through their networks and referrals from our existing customers. Our projects are also sourced by open tenders which are communicated through various channels such as announcements by local government authorities as well as by invitations from local governments to bid for projects. We closely monitor the latest developments in the local wastewater treatment and industrial water supply services industry and utilize local connections to identify new business opportunities.

Based on the information collected by our operation department, we coordinate the preparation of the relevant tender documents. This process includes careful consideration of the prospective customer's needs, the treatment options available, project budgeting and preparation of a preliminary project design.

Generally, we are required to pay a deposit in order to participate in the tender process. Any deposit we pay will be returned to us after the tender process. The factors that the local government considers in assessing a tender vary from one project to another, but generally include the credentials and qualifications of the applicant, the tender price, the technical design and the experience of the proposed project team.

Upon securing the tender, we will enter into a formal contract with the local government. After signing of the contract, we will form a new project company for such BOT project. For our BOT projects, the local governments that had entered into the relevant concession agreements with our project companies are the People's Government of Xintang town, Zengcheng city, Guangdong province, the People's Government of Longmen County and Hunan Huaihua Industrial Park Management Committee, respectively, all of which are authorities competent to enter into such concession agreements. The Hunan Huaihua Industrial Park Management Committee was authorized and assigned by the local government of Hunan province to manage the Huaihua Industrial Park.

Design Planning and Obtaining of Government Approvals

We must obtain the relevant approvals from the environmental protection bureau, the land planning bureau and the land administration bureau for our projects. In addition, we must obtain the necessary land planning permit and the construction planning permit from the relevant government authorities. After obtaining the necessary government approvals and permits and conducting comprehensive studies on the project and its requirements, a qualified design institute commissioned by us will draft a design proposal and our operation department will prepare detailed plans to discuss with the local government. We work closely with the design institute throughout the design planning process, which typically takes approximately three months until commencement of construction.

During the design planning process, we, in collaboration with a qualified design institute commissioned by us, will conduct studies to assess whether the proposed treatment system is suitable and adequate to meet our customer's needs. Discussion and preparation of the detailed plans for the design and construction of the facilities are also based on these studies and analysis. We utilize a combination of chemical and biological treatment processes and technologies which are customized to treat industrial wastewater in accordance with the requirements of different industries. Please refer to the paragraph headed "— Our Treatment Process for Industrial Wastewater" in this section for further details.

Procurement of Equipment

Once the design and implementation plans have been finalized, we will procure the equipment, parts and instruments required for the construction and eventual operation of a treatment plant. Our internal team determines the specifications of the equipment needed and provides such layout to pre-selected manufacturers. Emphasis is placed on ensuring quality and timely delivery such that the equipment assembled by our suppliers conforms to our technological and safety standards. To facilitate this, the equipment provided by our suppliers is inspected for quality control and quality assurance by an internal team before the equipment is supplied to us.

We believe our success is dependent on the quality of our equipment. As such we seek to ensure that our equipment suppliers are of sufficient caliber. We select our equipment suppliers based on a number of criteria, including reputation and financial condition, quality of materials and services, pricing and track record. We do not enter into long-term contracts with our equipment suppliers and principally work with them on the basis of purchase orders, which set forth detailed terms of, amongst others, the purchase quantity, model number and total price. We adopt a centralized procurement policy pursuant to which our headquarters decides which equipment suppliers to order from and the local project companies will enter into the actual purchase agreements with the equipment suppliers.

The payment terms with each of our suppliers vary. In general, we pay an initial deposit of approximately 20% to 50% of the total contract value upon signing of the contract, with the final payment or further payments due in installments, to be paid upon delivery, installation and testing of the equipment. Our contracts with the suppliers generally provide a one-year warranty period for the purchased equipment and in some cases, we could retain 5% to 10% of the total contract value as retention money for the warranty period.

Construction, installation, inspection, testing and commissioning

We hire qualified contractors for the construction of facilities and the installation, testing and commissioning of the necessary equipment and systems for such treatment facilities. The construction services provided under both our BOT and BOO projects include the procurement, engineering and construction of wastewater treatment facilities and infrastructure. We hire a qualified design institute for designing the layout of the facility, and hire a qualified contractor for construction according to

such layout. We are responsible for the costs of the construction services. We will procure the equipment and instruments required for operation of the facility after our internal team determines the specifications of the equipment needed and provides such layout to pre-selected manufacturers. We will oversee the installation of equipment by such manufacturers.

When construction of on-site facilities for the treatment systems by our contractors has commenced, we will monitor the progress of our contractors. The relevant government authority may conduct inspection on the construction progress and quality control of the facilities. Our PRC legal counsel is of the opinion that the construction of buildings and structures on the land parcels for our completed BOT projects had been approved by the relevant government authorities and would not be subject to any challenges by third parties.

After completion of the facilities, we will test, inspect and commission the systems to ensure that they are in accordance with our customers' requirements. Commissioning the equipment involves a procedure encompassing the examination of equipment procured and its integration into a fully functioning system. The overriding objective is to ensure that the designed specifications relating to output are met and that the equipment complies with the industrial standards and national as well as local rules and regulations formulated by the relevant government authorities. We are required by relevant PRC regulations to apply for the checking and acceptance of our facilities within three months, or under certain circumstances within a year, after the commencement of their respective trial operation.

Procurement of raw materials, operations and maintenance

As our success is also dependent on the quality of our raw materials, we seek to ensure that our raw material suppliers are of sufficient caliber as well. We usually enter into framework agreements of one-year term with our raw material suppliers and supplement such agreements with purchase orders. We evaluate our raw material suppliers on an annual basis and replace those that have not met our standards.

Upon satisfactory checking and acceptance of our treatment facilities, we will start operations of such facilities. In our BOO project, as we own the industrial water supply facilities, we will continue to operate and maintain the treatment system in accordance with the specifications and the needs of our customers, pursuant to contractual arrangements with our customers. In our BOT projects, we operate and maintain the treatment system in accordance with the specifications and the needs of our customers for the duration of the concession period, pursuant to the relevant concession agreements with the local government.

Transfer (BOT projects only)

Under our BOT contracts, we are required to transfer the treatment facilities to the local government for nil consideration upon the expiry of the concession period. Pursuant to our concession agreements, we are typically required to ensure that the treatment facilities operate properly after the transfer. In some cases, we are required to provide a warranty period of 12 months following the transfer and the local government could retain a portion of the wastewater treatment service fees received in the last two years of the concession period as retention money for the warranty period. For example, under our BOT agreement for Huaihua Tianyuan Treatment Facility (Phase I), we must deposit 30% of the wastewater treatment fees received in the last two years of the concession period as retention money for the warranty period in favor of the local government.

Key Contract Terms

We typically form a project company for each of our projects. While the specific contractual terms vary from one project to another, the typical contractual terms found in our wastewater treatment services agreements with our customers, including the local governments, are set forth below.

Our BOO projects

Project documentation for our BOO projects usually consists of an agreement with each of the customers, which stipulates the respective obligations with respect to the provision of wastewater treatment and industrial water supply services. The following summarizes the key contractual terms of our BOO projects:

Key contractual terms with customers

Water quality. The agreement sets out the quality of the wastewater to be transported to our treatment facility. For example, the COD and BOD levels must not exceed the maximum levels as stipulated in the agreement, otherwise, we have the right to increase the wastewater treatment fee or reject receiving wastewater from such customer.

Fees and payments. The agreement sets out the procedures and calculation methods for calculating the fees and payment of our wastewater treatment services. The agreement also sets out the terms and conditions pursuant to which the price of our wastewater treatment services may be adjusted.

We do not receive any payment from our customers prior to the commencement of operation of the treatment facilities. There is no exclusivity term specified in each of the relevant agreements. We are therefore allowed to provide services to other customers without prior consent from our existing customers. Following the completion of the testing of the facilities, we commence operation of the treatment facilities. Upon the commencement of the operation of the facility, pursuant to the agreement, we receive regular, usually monthly, fee payments from each customer based on the service fee specified in the agreement and the volume of wastewater treated or industrial water supplied by the facility.

Breach of contract. Unauthorized discharge of wastewater by the customer will be considered as a breach of contract. The customer will be required to pay a damage in the amount as set out in the agreement. We would not be liable for any unauthorized discharge of wastewater by our customers. For the BOO agreement for Sichuan Guangyuan Treatment Facility, if we do not complete the construction within the stipulated timeframe, the local government can unilaterally terminate the agreement.

Our BOT projects

Key contractual terms with local government

Project documentation for our BOT projects consists of an agreement with the local government authority which stipulates the terms upon which the concession is granted, and our respective rights and obligations with regard to our provision of wastewater treatment services during the concession period. The following summarizes the key contractual terms for our agreements with the local governments:

Concession period. The agreement stipulates the concession period for which we are appointed to operate the treatment facilities, which is usually around 25 to 30 years.

Construction schedule. The agreement sets out the construction schedule for the project, specifying target dates for key construction milestones, such as the commencement of construction and the completion date.

Pursuant to the agreement for Longmen Xilin Treatment Facility, if we cannot complete the construction of Phase II of the project within 300 days and still fail to complete construction after a grace period of one year, the local government can withdraw the concession authority and terminate the agreement without compensation. During such grace period of one year, we shall pay to the local government a penalty for each day of such delay in an amount that is calculated as 1% of the fee that

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would be paid for treating 7,000 tonnes of wastewater per day. Pursuant to the agreement for Huaihua Tianyuan Treatment Facility, the estimated trial operation is to be commenced within seven months from the date of the agreement and the estimated formal operation is to be commenced ten months from the date of the agreement. If either party causes a delay in the operation commencement, the party in breach is required to pay to the other party damages in an amount of RMB5,000 per day for such delay.

Testing and acceptance. The agreement sets out the procedures for testing and acceptance of the treatment facilities and the conditions upon which we may commence operation of the facilities and receive payment.

Wastewater treatment services. We are typically obliged under the terms of the agreements to treat a specified average volume of wastewater per month to a specified standard. The agreement also sets out the minimum quality standard of the treated wastewater.

Fees and payments. The agreement sets out the procedures and calculation methods for calculating the fees and payment of the wastewater treatment services. The agreement also sets out the terms and conditions on which the price of wastewater treatment services may be adjusted.

We do not receive any payment from our customers prior to the commencement of operation of the treatment facilities, though we do recognize revenue in our financial statements during the construction phase. For more information, please refer to the section “Financial Information — Description of Selected Income Statement Line Items — Turnover — BOT projects.” There is similarly no exclusivity term specified in each of the relevant agreements. However, in practice, we will seek prior consent from the local government before providing services to other customers. For example, for Yonghe Haitao Treatment Facility (Phase I), we have sought and obtained the local government’s oral consent before our provision of wastewater treatment services to Tian Tian and subsequently obtained a written confirmation from the local government of Xintang town in relation to our provision of wastewater treatment services to Tian Tian in March 2011.

Following the completion of the testing of the facilities, we commence operation of the treatment facilities. Upon the commencement of the operation of the facility, we receive regular, usually monthly, fee payments from our customer based on the service fee specified in the agreement and the volume of wastewater treated or industrial water supplied by the facility. The wastewater treatment services agreement and/or the BOT agreements usually provide for a guaranteed minimum volume of wastewater to be treated and we are generally entitled to receive payment for such minimum volume even if the volume of water actually treated by us is less than the minimum volume. The guaranteed tariff pricing takes into account factors such as consumer price index, labor costs, utilities charges and other operating costs. For certain of our BOT projects, such as Yonghe Haitao Treatment Facility, we will seek prior consent from the local government before providing services to other customers.

Transfer. We are required to transfer the treatment facilities to our customer for nil consideration upon the expiry of the term of our concession. Our agreements typically require us to carry out comprehensive repair works before the concession period expires to ensure that the treatment facilities operate properly after the transfer. In some cases, we are required to provide a warranty period of 12 months following the transfer. During this warranty period, we will attend, at our costs, to any defects in the equipment or systems for which we are responsible. We are required to provide the necessary repair and maintenance services to the customer during such warranty period. In addition, under certain of our BOT agreements, our customer could retain 30% of the wastewater treatment service fees received in the last two years of the concession period as retention money for the warranty period. During the Track Record Period, since no transfer of the treatment facilities had yet been made, no warranty expenses were incurred during the Track Record Period. The earliest end of concession period is expected to be 2035 for Huaihua Tianyuan Treatment Facility (Phase I). Our Directors are of the view that no provision for the warranty is required during the Track Record Period.

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Termination. The agreement can be terminated by either party due to events of default or force majeure events. For example, events of default by the local government may include wastewater treatment service fees not being paid in accordance with the agreement or making false or materially misleading statements; events of default by us may include leasing or transferring the right and authority of the concession to a third party or any serious production quality or safety accidents caused by our mismanagement. If there is any event of default, the terminating party shall notify the other party about its intent to terminate and if no agreement is reached within a certain period of time, the terminating party shall serve a notice of termination and the contract shall be terminated. Where the contract is terminated by one party due to the other party's breach of the terms of the contract, the terminating party is still entitled to damages or compensation as prescribed in the contract.

Key contractual terms with Tian Tian

As we also provide industrial wastewater treatment for Tian Tian at our Yonghe Haitao Treatment Facility, we have entered into a contractual agreement with Tian Tian dated June 30, 2010. The following summarizes the key contractual terms of our agreement with Tian Tian:

Term. The agreement stipulates the period for which we are appointed to provide industrial wastewater treatment services to our customer, which is one year and will be automatically renewed upon its expiration if no change takes place.

Water quality. Our customer is obliged under the terms of our agreements to transport a certain volume of wastewater to our facility per day. The agreement also stipulates the quality of the wastewater to be transported to our plant. For example, the COD level must not exceed the maximum level as stipulated in the agreement and cannot contain sand or other matters as described in the agreement; otherwise, we have the right to reject receiving the wastewater of our customer.

Fees and payments. The agreement sets out the procedures and calculation methods for calculating the fees and payments of our wastewater treatment services. The agreement also sets out the terms and conditions on which the price of our wastewater treatment services may be adjusted.

Termination. Pursuant to the agreement, Tian Tian is required to comply with all applicable environmental laws and regulations. If Tian Tian fails to comply with such applicable environmental laws and regulations, we have the right to unilaterally terminate the agreement and impose a penalty on Tian Tian in an amount that is calculated as 0.1% of any unpaid wastewater treatment fees multiplied by the number of days such fees have been outstanding. We are not responsible for any liabilities or losses arising from any violation of environmental laws and regulations by Tian Tian. During the Track Record Period and up to the Latest Practicable Date, to the best knowledge of our Directors, there had been no violation of the relevant environmental laws and regulations by Tian Tian.

Major contract terms relating to Yonghe Haitao Treatment Facility

Pursuant to the contract terms relating to Yonghe Haitao Treatment Facility, during the period of trial operations, the wastewater treatment fee payable monthly shall be calculated based on 50% of the price charged for the actual amount of wastewater treated. During the period of formal operations, the wastewater treatment fee payable monthly shall be calculated on the following basis: (i) the amount of actual wastewater treated when the wastewater volume is more than 75% and less than 105% of the design capacity; (ii) no treatment fee will be paid for wastewater treated in excess of 105% of the design capacity; and (iii) if the amount of wastewater treated is below 75% of the design capacity, we shall receive a minimum guaranteed amount as if the volume of wastewater treated is at 75% of the design capacity. We are required to provide the relevant local government an invoice within five days after the beginning of each month stating the amount of wastewater treated for the previous month and the total amount due. The local government shall make payment to us within 15 days upon receipt of such invoice.

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We are required to transfer the treatment facility to the local government for nil consideration upon the expiry of the concession period. We are required to provide a warranty for 12 months following the transfer. The local government is entitled to retain 10% of the wastewater treatment service fees received in the last three years of the concession period as retention money for the warranty period.

Upon the occurrence of force majeure events, such as flooding, earthquake, war or epidemics, both parties to the agreement may elect to terminate the agreement. Once the agreement is terminated, the treatment facility shall be taken over by the local government and we would be released from all our obligations under the agreement.

The agreement can be terminated by either party due to events of default. The events of default that entitle the local government to unilaterally terminate the agreement include: (i) our cessation in constructing the project facilities; (ii) failure to fully pay the registered capital or illegal withdrawal or embezzlement of registered capital; (iii) failure to pay the fees relating to design, construction and operation of the project while the creditor has filed action against us, causing interruption to the project construction or operations; (iv) our liquidation or insolvency; (v) our false representations and warranties which adversely impair our ability to perform our duties under the agreement; (vi) failure to proceed with the project construction according to the requirements of the bidding document and failure to consummate the project after a delay of 180 days as specified in the agreement; (vii) any serious safety accident due to our faulty operations and improper management; and (viii) our failure to perform any obligations under the contract and failure to cure within 60 days upon receipt of the local government's written notice describing such breach and claiming a remedy. The events of default that entitle us to unilaterally terminate the agreement include: (i) the local government's false representations and warranties which adversely impair its ability to perform the contract; and (ii) the failure by the local government to perform any obligations under the contract and failure to cure within 60 days upon receipt of our written notice describing such breach and claiming a remedy.

If there is any such event of default, the non-breaching party shall notify the other party about its intent to terminate. Such notice shall specify the event of default. Both parties shall consult with each other on measures to avoid the termination of the agreement within 30 days after the notice. If both parties reach an agreement as to the measures to be taken and/or if either one of the parties has cured its breach within such 30-day consultation period or a longer period as such parties may agree to, the notice of intent to terminate shall be automatically void. Upon the expiration of the consultation period, unless the parties have reached an agreement otherwise or the party in breach has cured the event of default, the non-breaching party shall send to the party in breach a notice to terminate and such agreement shall be terminated.

If we are unable to start the trial operations or formal operations according to the timeline as prescribed in the concession agreement for any reasons that are not caused by a breach of contract by the local government and that are not related to force majeure events, we are required to pay a penalty to the local government for each day of delay as specified in the agreement. Such penalty shall be paid upon receiving notice from the local government.

Pollutant Discharge Quota

We are allocated a fixed amount of pollutant discharge quota from the local government in regions where we operate. Our early entry into such regions has allowed us to obtain allocation of such pollutant discharge quota, permitting us to discharge wastewater in such regions. The amount of quota allocated is calculated by the environmental protection department of the government, taking into account certain factors such as the standards governing discharge of wastewater and the overall volume of wastewater to be discharged. Our BOT projects that are secured through the open tender process are not required to pay a wastewater discharge fee so long as the discharged wastewater meets the relevant national or local standards. Our Directors confirmed that Yonghe Haitao Treatment

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Facility, Longmen Xilin Treatment Facility and Huaihua Tianyuan Treatment Facility were not required to pay wastewater discharge fees during the Track Record Period. Guangzhou Xinzhou Industrial Park Treatment Facility is required to pay a wastewater discharge fee based on the actual volume of wastewater discharged. A breakdown of our wastewater discharge quotas and relevant utilization rates is shown below:

Company	Pollutant Discharge Quota⁽¹⁾ (m³/day)	Actual Discharge Amount⁽³⁾ (m³/day)	Quota Utilization⁽⁴⁾ (%)
Guangzhou Xintao	100,000	78,749	79%
Yonghe Haitao (Phase 1)	50,000 ⁽²⁾	26,085	52%
Longmen Xilin	20,000	18,447	92%
Huaihua Tianyuan (Phase 1)	45,000 ⁽²⁾	25,780	57%

- (1) The daily pollutant discharge quota is calculated on the basis of the annual pollutant discharge quota stipulated in the respective Pollutant Discharge Permits held by the relevant project companies, divided by 365 days.
- (2) For Yonghe Haitao and Huaihua Tianyuan, the figure represents the pollutant discharge quota stipulated in the respective Pollutant Discharge Permit for Phase I of the project only. The Company expects that each of Yonghe Haitao and Huaihua Tianyuan will have their respective pollutant discharge quota, as reflected in the Pollutant Discharge Permits, updated to a total of 100,000m³/day for both of Phase I and Phase II of the project, upon completion of construction of Phase II of the project.
- (3) The actual discharge amount listed above is the average daily amount of wastewater discharged for the year of 2010, which is estimated based on the actual daily amount of wastewater treated for the year of 2010.
- (4) The daily quota utilization is calculated by dividing the daily actual discharge amount by the daily pollutant discharge quota. This may not be reflective of the annual quota utilization.

As of December 31, 2010, each of our facilities had achieved a relatively high quota utilization rate. In the future, if the quota utilization rate decreases significantly due to an unexpected drop in the volume of wastewater treatment for our existing projects: (i) for our BOT projects we intend to negotiate with the relevant government that entered into the BOT agreement to expand such facility's service to third parties. Please also refer to the section headed "Risk Factors — Risks Relating to Our Business — We rely substantially on the local governments for the development and operations of our BOT projects and the local governments may withdraw the concessions and terminate the agreements should we breach the terms of our agreements with them or fail to implement projects which fully satisfy their requirements or expectations"; and (ii) for our BOO projects, we intend to expand our operations and engage more customers for the relevant treatment facility, with the aim to increase the quota utilization rate of that particular facility and our return on investment. In addition, if the system of discharge quota trading is implemented in the relevant areas in the future, we intend to trade our unutilized quota in return for a profit.

The quota type and the allocated quota of pollutants dischargeable by each unit for each project are allocated at the time when the relevant environmental impact assessment for such project is completed, which occurs before the commencement of construction. As our Group has only commenced construction and operations of our facilities after completing the relevant environmental impact assessments, we have never operated our wastewater treatment facilities without the relevant quota. Our Directors are of the view that the pollutant discharge quota system will not hinder our expansion plan. In the event that the pollutant discharge quota is fully utilized for a particular project site, we intend to expand our operations to other areas that are likely to require centralized treatment facilities and in which the pollutants discharge quota have not been fully allocated. We believe that the wastewater treatment services industry in China is still at an early stage and that there are a

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sufficient number of areas in which the pollutants discharge quotas have not been fully allocated. For details of the legal and regulatory requirements applicable to the Pollutants Discharge Permit and pollutant discharge quota, please refer to the section headed “Regulations — Pollutants Discharge Permit and Quota.”

PROJECT FINANCING

We are responsible for funding the construction of the wastewater treatment and industrial water supply facilities. We are also responsible for the land acquisition costs for BOO projects. As of December 31, 2010, the total budgeted investment amount for our existing wastewater treatment projects was RMB353.0 million. Pursuant to applicable PRC regulations, we are required to fund at least 20% of the total project investment amount from our own resources. In practice, the percentage of funding from our own resources varies on a project by project basis and we intend to fund at least 30% of the total project investment amount from our own resources. Therefore, we may need to fund up to 70% of the total project investment amount from external sources, such as bank borrowings. During the Track Record Period, we funded the development cost of most of our projects through internal cash reserves and project loans from commercial banks in China. Going forward, we intend to utilize internal resources, proceeds from the Global Offering and project financing from commercial banks to finance our projects.

In obtaining funding from such third parties, we generally provide the potential lender with the following:

- (i) A feasibility study report and appraisal of the project construction, allowing the lender to assess the potential project profitability;
- (ii) A complete set of project documents setting forth information such as project approval, environmental approval, details of equipment suppliers, planning approval, construction approval and details of eligible construction contractors;
- (iii) Details of other sources of funds currently available for the project; and
- (iv) Warranties in connection with such project investment.

Such information is intended to allow the potential lender to perform an objective and comprehensive assessment on whether funding should be provided.

We obtain bank borrowings in the form of project financing. Our Directors are of the view that our existing level of debt will not affect our ability to obtain project financing in the future since such financing is usually secured by either the project company’s assets or the tariffs payable to the relevant project company under the project agreement. During the Track Record Period, we have been able to obtain sufficient bank borrowings to finance our projects.

The principal amount of bank loans with a term of five years entered into by Guangzhou Xintao and Guangzhou Kaizhou on December 30, 2008, respectively, is to be repaid in installments on a quarterly basis during the life of the loan, with interest to be paid on a monthly basis. For the bank loan with a term of 15 years entered into by Guangzhou Haitao on March 16, 2010, the Company is required to pay the principal amount in installments on a monthly basis during the remaining life of the loan. In addition, the payment required to be made by us to contractors for the construction services is made in installments and under circumstances, can be paid after the completion of construction. Before undertaking a project, we assess its current and projected cashflow positions and determine whether we are able to fund the 30% investment amount upfront and meet the schedule of bank loan interest and principal payments, as well as payments to contractors, taking into account the tariff payment amount and schedules of existing projects and projects under contemplation. Our Directors are of the view that we are able to finance our projects during the construction phase of the relevant projects.

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As of December 31, 2010, we had unrestricted bank balances and cash of approximately RMB16.4 million. As of the Latest Practicable Date for the purposes of our indebtedness statement contained in this prospectus, we had entered into the following long-term bank loans with commercial banks in China:

<u>Project company</u>	<u>Type of loan</u>	<u>Date of loan agreement</u>	<u>Duration</u>	<u>Interest rate at inception (%)</u>
Guangzhou Xintao	Fixed asset loan	December 30, 2008	5 years	6.048
Guangzhou Kaizhou	Fixed asset loan	December 30, 2008	5 years	6.048
Guangzhou Haitao	Fixed asset loan	March 16, 2010	15 years	5.94

The principal amount of the loans entered into by Guangzhou Xintao, Guangzhou Kaizhou and Guangzhou Haitao was RMB180.0 million, RMB70.0 million and RMB 67.8 million, respectively. As of December 31, 2010, the outstanding amount of the loans entered into by Guangzhou Xintao, Guangzhou Kaizhou and Guangzhou Haitao was RMB145.7 million, RMB58.2 million and RMB67.8 million, respectively.

The interest rate charged by the banks for these long-term project loans is usually linked to the long term lending rate for funding published by the PBOC, plus a margin. As of December 31, 2010, the five year lending rate published by the PBOC was 6.4% per annum. The availability and costs of financing are important factors in our assessment of potential project business opportunities. We only develop projects which we estimate will provide a return on investment which is higher than our estimated cost of financing based on typical financing terms available in the market. Please also refer to the section headed “Risk Factors — Risks Relating to Our Business — We may require additional funding for our capital intensive projects and our inability to borrow additional amounts or refinance our debt could adversely affect our results of operations and financial condition and prevent us from fulfilling our financial obligations and business objectives” in this prospectus.

Generally, project loans for our BOO projects are secured by the relevant project company’s assets where such assets are to be pledged to the bank. Some of the loans for our BOO projects were secured by assets of Mr. Tsui and/or of the companies held by Mr. Tsui and those securities have been released as of the Latest Practicable Date. The project loans for our BOT projects are secured by the tariffs payable to us under the relevant concession agreement during the concession period.

RAW MATERIALS AND EQUIPMENT

The principal raw materials used in constructing our treatment facilities include steel, aluminum, copper, other base metals and cement, which are purchased and provided by our contractors. The principal raw materials we use in our wastewater treatment and industrial water supply process include chemicals such as sulfuric acid (硫酸), potassium dihydrogen phosphate (磷酸二氫鉀), poly aluminum chloride (聚氯化鋁), polyacrylamide (聚丙烯醯胺), ferrous sulfate (硫酸亞鐵), urea (尿素), sodium chlorate (氯酸鈉), hydrochloric acid (鹽酸), and ferric chloride (三氯化鐵). The principal equipment we use in our operations include, among others, pump, flocculation reaction facility, influent distribution system, online dissolving monitoring system, advance centrifugal blower, high-low pressure distribution cabinet, ultrasonic flow meter and wastewater pump frequency converter. We generally source our raw materials and equipment from local sources for our operations.

SUPPLIERS

Our engineering department is responsible for the procurement of key raw materials and equipment from our suppliers. Generally, we adopt a centralized procurement policy pursuant to which our headquarters decides which equipment suppliers we are to order from and the local project companies will enter into the actual purchase agreements with the equipment suppliers.

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The payment terms with each of our suppliers vary. In general, we pay an initial deposit of approximately 20% to 50% of the total contract value upon signing of the contract, with the final payment or further payments in installments, to be paid upon delivery, installation and testing of the equipment. Our contracts with the suppliers generally provide a one-year warranty period for the purchased equipment and in some cases, we could retain 5% to 10% of the total contract value as retention money for the warranty period. For raw material suppliers, purchases within the current month are generally required to be settled by the end of the next month.

Each of our suppliers is required to undergo a supplier approval process before we make any purchases. We select our suppliers based on a number of criteria, including reputation and financial condition, quality of materials and services, pricing and track record. In addition, we perform batch sampling of raw materials that a supplier provides to us. Under our policy, we terminate our relationship immediately with any supplier that fails to meet our required standards.

The percentage of our total purchases from our largest raw material supplier for the years ended December 31, 2008, 2009 and 2010 was approximately 51.3%, 42.6% and 49.6% of our total purchases and amounted to HK\$6.6 million, HK\$7.5 million and HK\$16.3 million, respectively. The percentage of our total purchases of raw materials from our top five raw material suppliers for the years ended December 31, 2008, 2009 and 2010 was approximately 88.2%, 89.4% and 90.2% and amounted to HK\$11.4 million, HK\$15.7 million and HK\$29.6 million, respectively.

During the Track Record Period, we had sourced our raw materials from a few reliable suppliers located near Guangzhou Xinzhou Industrial Park Treatment Facility in order to benefit from the economies of scale and proximity, which allowed for faster delivery of raw materials. During the Track Record Period, most of our operations were conducted in Guangzhou Xinzhou Industrial Park Treatment Facility. As such, during the Track Record Period, most of our raw materials were sourced from suppliers located near Guangzhou Xinzhou Industrial Park Treatment Facility. For the operations of Yonghe Haitao Treatment Facility (Phase I) and Huaihua Tianyuan Treatment Facility (Phase I), both of which had commenced operations in 2010, we expect to source our raw materials for these facilities from reliable local suppliers located near such facilities. As such, with the expansion of our business operations to other areas, we expect to source our raw materials from an increasing number of local suppliers. Accordingly, going forward, we expect our five largest suppliers to account for a lower concentration of our cost of sales.

We have readily available alternative suppliers in the market who offer similar terms as our existing suppliers. To mitigate the risks associated with any reliance on our major suppliers, we regularly seek potential alternative suppliers and obtain quotations from such suppliers with the view to keep in contact with potential suppliers who can offer favorable pricing and delivery terms. We believe that a ready pool of potential alternative suppliers will allow us to locate a replacement in a timely manner in the event that we need to replace any of our existing suppliers.

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 raw material and equipment suppliers during the Track Record Period.

INDEPENDENT CONTRACTORS

We generally enter into an agreement with independent contractors which provide construction services for each of our projects' treatment facilities.

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Pursuant to the construction contractor agreements, we are generally responsible for the following: (i) leveling and landscaping the relevant land; (ii) obtaining the relevant construction permits; (iii) providing water, electricity, telecommunication lines from the construction site to other areas as specified in the agreement; (iv) connecting access roads between the construction sites and the urban and rural public roads as well as roads within the construction site; and (v) coordinating with the contractor on the design and drawing of the construction layout.

Pursuant to the construction contractor agreements, the contractor is generally required to perform the following: (i) completing the construction drawing and design within the timeline as specified in the agreement; and (ii) providing construction services. In the event of an accident as a result of inadequate safety measures by the contractor, the contractor will bear any damages or losses arising from such accident.

We are required to pay the contractor according to the terms as specified in the agreement. On the other hand, if the contractor is unable to complete the construction within the timeline agreed by both parties or if the quality of the construction does not meet the standards as agreed, the contractor is considered to have breached the agreement. In some circumstances, we will be entitled to terminate the agreement and claim for compensation for our economic losses.

In selecting our third party contractors, we consider a number of factors, including:

- the contractor must possess the requisite managerial capability, qualification for construction of the project as well as the requisite construction technologies;
- the contractor must have satisfactory past performance and experience in project construction;
- the contractor must have the financial strength to engage in such project; and
- the prices and quality of services to be provided by the contractor.

Under the PRC laws, we are not required to conduct an open tender process for the selection of independent contractors.

During the years ended December 31, 2008, 2009 and 2010, the percentage of construction services performed by our largest contractor accounted for 66.6%, 54.5% and 32.4%, respectively. During the years ended December 31, 2008, 2009 and 2010, the percentage of construction services performed by our five largest contractors accounted for 100%, 98.8% and 74.4%, respectively.

CUSTOMERS

Our wastewater treatment and industrial water supply services are primarily used by customers in the textile industry, the local governments for municipal wastewater treatment and customers in the pulp and paper-making, and food and beverage processing industries.

The percentage of our total turnover attributable to our largest customer for the years ended December 31, 2008, 2009 and 2010 was approximately 9.6%, 8.9% and 22.3%, respectively. The percentage of our total turnover attributable to our top five customers for the years ended December 31, 2008, 2009 and 2010 was approximately 41.3%, 36.7% and 51.5%, respectively.

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.

MARKETING

Our marketing is undertaken by our public relations department, which is generally responsible for public and customer relations, logistics for tender submissions, business negotiations and client development.

With our main marketing emphasis being put on the industrial wastewater treatment industry, our marketing strategies are as follows:

- *Participate in industry events and increase liaison with various industry organizations.* We intend to participate in various industry events, increase communication and liaison with various wastewater treatment services industry organizations and invite the relevant participants (such as engineers and technicians) from such industry organizations to visit our facilities, with the aim to promoting our brand recognition and reputation.
- *Increase communication with the local governments.* We intend to continue increasing our communication with local governments, especially those in regions where we do not currently operate, including inviting government officials to visit our treatment facilities so as to promote our brand recognition. We believe that increased awareness by local governments of the quality of our wastewater treatment and industrial services and our treatment facilities will increase our reputation and allow us to establish stronger relationships with the local governments, which will help strengthen our market presence and positioning in our industry.
- *Apply for government grants.* We plan to continue applying for certain governmental subsidies for our R&D initiatives. We believe that such granting of subsidies by local governments will enhance our brand recognition.

RESEARCH AND DEVELOPMENT

We have strong research and development capabilities which enable us to customize and adapt existing technologies to suit the needs of our customers in different industries and stricter environmental standards. We maintain a research and development team, which primarily focuses on developing wastewater treatment and industrial water supply technologies in the textile industry. Our research and development team also carries out market research to explore and understand the needs of our customers. We aim to continue to develop new technology through research and experimentation which includes the studying of current industrial climate and the environmental regulatory requirements imposed on the wastewater treatment services industry, so as to meet market demands. Leveraging our extensive experience in the textile industry, we intend to continue developing new technologies that can be utilized in other industries.

While we have strong in-house R&D and technical capabilities, we also undertake research and development projects and cooperation agreements with well-known universities and research institutions including South China Institute of Environmental Sciences and Sun Yat-Sen University, which have research departments specializing in wastewater treatment technology and other environmental issues. At Sun Yat-Sen University, we established the CT Environmental Scholarship in cooperation with the School of Environmental Sciences and Engineering, a ten year, RMB3 million scholarship for students of the university. Our research and development projects typically involve specialized technical requirements, more demanding development processes and longer development completion times. By cooperating with these research institutions, we are able to improve the design and engineering of our wastewater treatment and industrial water supply technology and equipment, shorten our development cycles and/or reduce our overall business costs. Typically, we are required to keep confidential any technology materials prepared for and provided to us by the research

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institution, and the research institution is also under confidentiality obligations in cases where we provide it with our own materials and information. In addition, the research institutions are required to keep confidential the results of the research and development efforts conducted in collaboration with us.

Pursuant to our agreement with South China Institute of Environmental Science (“SCIES”), the SCIES shall cooperate and assist us in optimizing the treatment technologies that we wish to develop for our Guangzhou Xintao Industrial Park Treatment Facility. The research expenses are to be contributed by both parties. We shall be responsible for costs relating to the on-site working environment and project facility engineering. There is no profit-sharing arrangement in relation to our cooperation with SCIES.

Pursuant to our agreement with Sun Yat-Sen University and Guangzhou Central Environmental Engineering Company Limited (廣州中環萬代環境工程有限公司), the parties shall cooperate in the “2009 Guangdong Province Technology Planning Project” in relation to the Textile and Dyeing Industry Quality Wastewater Discharge Standards and Project Showcase. The project will be entirely funded by the relevant local government. Each of us, Guangzhou Central Environmental Engineering Company Limited and Sun Yat-Sen University will be allocated with 30%, 55%, and 15% of the funding received from the relevant local government on this project. Pursuant to the agreement, Guangzhou Central Environmental Engineering Company owns the intellectual property rights to the technologies developed in this project, including any profits derived therefrom. We and Sun Yat-Sen University will be authorized to use such technologies developed in the project. There is no profit-sharing arrangement in relation to such intellectual property rights.

One of our current employees, who had previously applied for the patent rights to the Solar Reclaimed-Water Hybrid-Heat Source Sludge Drying System technology during the course of his employment, had transferred the utility patent and the application rights to the invention patent to us pursuant to two respective patent transfer agreements entered into with us on December 31, 2010. The State Intellectual Property Office of the PRC subsequently approved both such transfers. Our Directors have confirmed that there is no consideration paid by us to the employees for the transfer of utility patent and the application rights to the invention patent of Solar Reclaimed-Water Hybrid-Heat Source Sludge Drying System technology. According to our PRC legal counsel, such transfers do not violate any PRC laws or administrative regulations. Please refer to the section “Risk Factors — Risks Relating to Our Business — We may infringe on the intellectual property rights of others and may be unable to adequately safeguard our technology, and we may face claims that may be costly to resolve or limit our ability to use such technology in the future.” As of the Latest Practicable Date, our research and development team consisted of 16 employees including members holding senior engineering and/or assistant engineering qualifications. Mr. Huang Rong Zhou, the head of our R&D team, joined the Company in 2010 and has over 20 years of experience in the environmental protection industry. For more information on Mr. Huang’s experience, please refer to the section headed “Directors and Senior Management — Senior Management.” Going forward, we expect our research and development expenditures to be approximately 5% of our turnover from wastewater treatment services.

The following sets forth details of the qualification and experience of the key members of our in-house R&D team:

- (1) Mr. HUANG Rong Zhou, aged 62, is our technology and research & development director. Mr. Huang is responsible for our technological research, development and innovation. His duties include liaising with relevant technological research organizations, assisting in our application for projects sponsored by the PRC Government and patent applications. In 1965, Mr. Huang graduated from the Chengdu Institute of Meteorology (成都氣象學院). He is an environmental protection engineer;

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- (2) Mr. ZHAO Ke Yin, aged 36, is our chief engineer and is responsible for our daily technical supervision and implementation. Mr. Zhao is responsible for implementing national policies relating to technology and advanced technology management policies. Mr. Zhao has over 10 years of experience in wastewater treatment, with a special focus on industrial wastewater treatment technology. Mr. Zhao is our key liaison with regulatory authorities. In 1998, Mr. Zhao obtained a bachelor's degree in environmental protection monitoring and implementation from Polytechnic University (瀋陽工業學院). He obtained a wastewater treatment training certificate issued by Guangdong Environmental Association Environmental Protection Vocational Training Centre (廣東環協環保職業技能培訓中心). He has also passed the environmental protection training accredited by Guangzhou Environmental Protection Promotion and Education Centre (廣州市環境保護宣傳教育中心) and Guangzhou Environmental Protection Bureau (廣州市環境保護局).
- (3) Mr. GAN Yong Xiong, aged 42, has been involved in the sludge drying industry since 2000. Mr. Gan joined Guangzhou To Kee in mid 2009 and was transferred to Guangzhou Xintao in 2010. Mr. Gan shall take charge of the sludge treatment project. Mr. Gan is involved in Guangzhou Xintao's sludge treatment project with a volume of over 90 tonnes per day and Yonghe Haitao's municipal sludge treatment project. Prior to joining us, Mr. Gan was employed at Zhejiang Lv Zhi Sludge Treatment Technology Co. Ltd. as the general manager of the R&D department. Mr. Gan has successfully developed the Solar Reclaimed-Water Hybrid-Heat Source Sludge Drying System technology and obtained from the intellectual property office a utility patent. In 2006, Mr. Gan was employed as the general manager in the R&D department of Beijing Gelin Lande Environmental Technology Co. Limited. He has successfully developed the high-pressure sludge drying technology and obtained one invention patent and three utility model patents;
- (4) Ms. FENG Xiao Ru aged 42, joined Guangzhou To Kee in 2004 and transferred to Guangzhou Xintao in 2010. Ms. Feng has over 10 years of experience in the environmental protection industry. Ms. Feng graduated from the Guangdong University of Technology (廣東工學院) in 1990. Prior to joining us, Ms. Feng has worked with Guangzhou Sino Group Co. Limited as the vice president of development and was responsible for the company's real estate development projects involving environmental protection issues. Ms. Feng has also worked at the Guangzhou Jockey Entertainment Company from 1992 to 2000 as the vice president of economic development and the deputy general manager of the company's head office and was responsible for the development of the company's business;
- (5) Ms. HUANG Jing, aged 35, joined Longmen Xilin in January 2009. Ms. Huang graduated from Huizhou University in 1998 majoring in chemistry. Prior to joining us, Ms. Huang has worked with the Longmen Xilin local government from 2006 to 2008.
- (6) Ms. WU Min Yu graduated from Guangzhou University in July 2007. Ms. Wu joined Guangzhou Xintao in 2008. Ms. Wu obtained a certificate in water quality inspection issued by Guangdong Professional Skills Appraisal and Guidance Centre (廣東省職業技能鑒定指導中心) in 2004; and
- (7) Mr. FAN Pu Hang graduated from Guangdong Vocational School of Environmental Protection with a diploma in environmental monitoring in July 2006 and joined Guangzhou Xintao in 2011. Prior to joining us, Mr. Fan worked as a safety and environmental impact inspector for a private testing and inspection company.

As of the Latest Practicable Date, the technologies for which we had applied for patents include the following:

- A type of textile and dyeing wastewater solid removal equipment (紡織印染水格渣設備). This utility model uses hydraulic power to power the rotary grid which guarantees a smooth flow of water allowing for a higher hydraulic power utility rate. The maintenance cost on this model is low and it does not corrode easily;

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- A type of anaerobic treatment equipment (厭氧反應處理設備). Through the two stage process of hydrolysis and acidification in the design of this new utility model, this equipment can effectively remove organic pollutants in a relatively short period of time. It can greatly improve and enhance water solubility and biodegradability and can further improve the wastewater's BOD/COD ratio; and
- A type of solar industrial sludge drying system (太陽能工業廢熱污泥幹化系統). This system mainly operates to reduce the water content of sludge. The entire system is enclosed, which can greatly minimize the impact of sludge treatment on the surrounding environment.

In addition, one of our current employees, who had previously applied for the patent rights to the “Solar Reclaimed-Water Hybrid-Heat Source Sludge Drying System” (太陽能中水雙熱源熱泵污泥乾化系統) during the course of his employment with us, had transferred the utility patent and the application rights to the invention patent to us pursuant to two respective patent transfer agreements entered into with us on December 31, 2010. The system includes a solar powered reclaimed water hybrid-heat source drying device, which consists of a multi-level crushing unit that can reduce the particle size of sludge as well as a high-voltage electric field that can accelerate the sludge drying process. The State Intellectual Property Office of the PRC subsequently approved both such transfers. According to our PRC legal counsel, such transfers do not violate any PRC laws or administrative regulation.

AWARDS

Our commitment to excellence is evidenced by our numerous awards received since our establishment:

Year of award	Award
2005	Guangzhou Xinzhou was awarded the “Creation of National Environmental Protection Model City Special Contribution Award, Guangzhou City” (廣州市創建國家環保模範城市特別貢獻獎)
2006	Guangzhou Xinzhou was awarded the “Outstanding Unit of Guangdong Environmental Publicity Award” (廣東環保宣傳優秀單位)
2007	Guangzhou Xintao was awarded the “2007 Key National Model Project for Practical Technology in Environmental Protection” (2007年國家重點環保實用技術示範工程) by China Environmental Protection Association (中國環境保護產業協會) in relation to our Guangzhou Xinzhou Industrial Park Treatment Facility
2009	Guangzhou Xintao was awarded the “Ecological Civilization Charity Award” (生態文明公益獎) by the Guangdong Province Environmental Protection Promotion Center (廣東省環境保護宣傳教育中心)

QUALITY CONTROL

Our operation department is responsible for quality control over the wastewater treatment and industrial water supply services provided to our customers. In order to ensure that our staff adhere to our quality control procedures, we conduct personnel training and education on quality assurance standards throughout the year. We have developed a comprehensive internal quality control management system as part of our commitment to adhere to our quality control.

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We evaluate our testing and inspection procedures from time to time to determine whether they have been effective in ensuring that our equipment and treatment systems are of good quality. Where necessary, we would revise and improve our testing and inspection procedures. We also evaluate our work procedures and formulate corrective measures to rectify errors during operations and preventive measures to ensure that errors are not repeated in future operations.

To ensure the quality of our services and to prevent problems arising from our daily operations, we have developed a series of quality control and maintenance measures, including the following:

- We have a central computerized control system to track data and detailed records in the daily operation of our equipment and the quality of the discharged water. For details of our central computerized control system, please refer to “— Information System” below.
- We maintain a management and emergency response system. In addition, we seek to further improve our safety responsibility system, safety inspection system and operating rules for different job positions. We typically arrange for staff training sessions, with the aim to prevent industrial accidents caused by mismanagement or mishandling of the facilities in the treatment process by our staff.
- Our professional technicians and laboratory personnel regularly track each aspect of our treatment systems in operations and maintain detailed records so that problems or defects in water quality can be easily detected. This ensures the quality of our wastewater treatment and industrial water supply process and helps us pre-empt problems that may arise during operations such that they can be remedied as soon as possible.
- Our technical personnel and laboratory operations personnel will conduct, from time to time, theoretical studies of wastewater treatment technologies and internal forums to exchange experience and ideas for both quality control and research and development purposes.
- We have professional personnel who perform routine electrical and mechanical inspection, maintain detailed maintenance reports and carry out maintenance and repair on our facilities including the wastewater lift pumps, blowers and wastewater frame filter equipment.
- We hold meetings, from time to time, for our full-time management team members and technical staff to discuss and analyze operational problems that have occurred with a view to provide better emergency solutions to unexpected problems that may arise in the future.

The quality of our services is also being monitored 24 hours a day by the local government. The local government has installed a computerized control system at the facility allowing them to monitor the quality of our treated wastewater.

For our BOO projects, we have implemented the following measures to minimize the unauthorized discharge of wastewater by our customers:

- We inspect and monitor the wastewater discharge of our customers in the industrial park;
- In the event that there is an unauthorized discharge of wastewater by a customer, we will immediately cease to provide wastewater treatment services to such customer and will notify the relevant environmental protection authority. We will resume providing wastewater treatment services to such customer only after we are satisfied that such customer has ceased such unauthorized discharge of wastewater, passed the relevant checking and acceptance test as well as paid any required fine imposed as a result of such unauthorized discharge; and

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- We monitor the volume of water used by our customer and the volume of wastewater discharged by such customer, and we will investigate if there is a significant discrepancy between the volume of water used by our customer and the volume of wastewater discharged by such customer since such discrepancy may indicate an unauthorized discharge of wastewater.

For our BOT projects, we are responsible for the wastewater treatment process within our treatment facilities and are not liable for any unauthorized discharge incident occurring outside our treatment facility area. The customers are monitored by the relevant environmental protection authority. We do not have any rights and obligations in monitoring the discharge of wastewater by our customers.

On January 13, 2011, we attained the ISO 9001: 2008 certification for our Guangzhou Xintao Wastewater Treatment Company Limited. The ISO certificate process involves subjecting our operating processes and quality management system to annual surveillance audits by the ISO certification body. We have made continuous improvement in our quality management system and attained the ISO 14001: 2004 certification on January 13, 2011 for its environmental management system.

REPAIRS AND MAINTENANCE

Our repairs and maintenance programs, which are primarily targeted for wastewater treatment and industrial water supply facilities, are designed to increase production efficiency and prevent unexpected interruption of our operations. Such programs are carried out by our machinery and electrical repair teams. Our machinery and electrical repair teams carry out day-to-day repairs and maintenance of the facilities and equipment for our operations on an as-needed basis.

ENVIRONMENTAL MATTERS

We are subject to national and local environmental protection laws and regulations in China, 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 《中華人民共和國水污染防治法》. For further details, please refer to the section headed “Regulations — Environmental protection.” We consider the protection of the environment to be important and have implemented measures in the operation of our business to ensure compliance with the applicable requirements under the PRC environmental laws and regulations. We are generally required to comply with the applicable laws and regulations, but specific requirements to do so are usually not stipulated in the relevant contracts for our projects or equipment supply. During the Track Record Period and up to the Latest Practicable Date, we have not received any claims from our customers for failing to comply with the relevant licensing and environmental requirements.

Companies are also required to carry out an environmental impact assessment before commencing construction of production facilities and the installation of pollution treatment facilities that meet the relevant environmental standards and treat pollutants before discharge. We are required to carry out the required environmental impact assessment before commencing construction of our production facilities in all the BOT projects and BOO projects.

We are required by relevant PRC regulations to apply for the checking and acceptance of our facilities on the completion of environmental protection facilities within three months, or under certain circumstances within a year, after the commencement of trial operations of the relevant treatment facilities. If we do not initially pass the required checking and acceptance, we will be required to rectify the problem and make improvement to our facilities according to the governmental specifications and recommendations until we pass such required checking and acceptance. In such event, during the process of making such improvement to our facilities, our operations may be subject to disruptions, which could materially and adversely affect our business and results of operations.

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Yonghe Haitao Treatment Facility (Phase I) had passed the checking and acceptance and obtained the Pollutants Discharge Permit in March 2011. Longmen Xilin Treatment Facility (Phase II) and Huaihua Tianyuan Treatment Facility (Phase I) had passed the checking and acceptance and obtained the Pollutants Discharge Permit in April 2011 and March 2011, respectively.

We are required by applicable PRC laws to obtain the Qualification Certificate for the Operation of Environmental Pollution Treatment Facilities (the “Qualification Certificate”) for the operation of wastewater treatment plants. On December 20, 2010, Guangzhou Xintao obtained the Provisional Level A Qualification Certificate (臨時甲級環境污染治理設施運營資質證書), which is valid for one year and allows Guangzhou Xintao to operate its wastewater treatment facilities and provide municipal sewage and industrial wastewater treatment services, including waste leachate treatment services, nationally during this period. Pursuant to various entrustment agreements entered into between Guangzhou Xintao and its subsidiaries, Guangzhou Xintao will operate the relevant projects on behalf of such subsidiaries in accordance with the Provisional Level A Qualification Certificate. According to our PRC legal counsel, such entrustment agreements do not violate any PRC laws or administrative regulations, nor are we required to obtain approvals or consents from the relevant governmental authorities to enter into such entrustment agreements. Each of these entrustment agreements has been registered with the relevant local environmental bureaus. Prior to the expiration of the Provisional Level A Qualification Certificate, we intend to convert our Provisional Level A Qualification Certificate to a formal Level A Qualification Certificate, which will be valid for three years. Under PRC laws and regulations, the Provisional Level A Qualification Certificate and the formal Level A Qualification Certificate have substantially equal force and effect with respect to the scale and scope of operations and permitted types of job categories. The main difference between the two types of Qualification Certificates is the validity period: the Provisional Level A Qualification Certificate is valid for one year, while the formal Level A Qualification Certificate is valid for three years. However, if an applicant possessing a Provisional Level A Qualification Certificate wishes to convert such certificate into a formal Level A Qualification Certificate, the applicant is not required to provide, for a second time, evidence of all of the original application requirements, such as evidence of the formal operation of pollution abatement facilities for one year or more without violating any laws or regulations. Instead, the applicable PRC laws provide that an applicant’s Provisional Level A Qualification Certificate can be converted into a formal Level A Qualification Certificate by providing supporting documents showing the operation of pollution abatement facilities for 300 days or more and the attainment of the requisite standard for the discharge of pollutants.

Prior to December 20, 2010, we had operated our wastewater treatment facilities without the Provisional Level A Qualification Certificate. Pursuant to the Management Methods for Approval of Qualification for Operation of Environmental Pollution Control Facilities 《環境污染治理運營資質許可管理辦法》, in order to apply for a Level A Qualification Certificate, among other requirements, the applicant is required to have no fewer than ten specialized technicians, with at least five of these technicians having a high level of expertise. We completed our search for qualified experts to meet this personnel requirement by April 2010. Prior to this, we were of the view that relevant regulations were not strictly enforced and as a result, we did not see an immediate need for such compliance. Accordingly, we had taken our time to search for suitable qualified experts. Also, due to the developing regulatory environment at the time, we faced competition from other companies not possessing the relevant Qualification Certificate. However, the Directors are of the view that in light of the increasingly strict regulation of wastewater treatment services, it is presently unusual for wastewater treatment companies to operate without the relevant Qualification Certificate. As part of the preparation for our Listing application, we undertook a review of the relevant legal and regulatory requirements and subsequently enhanced our efforts to build our professional team in order to meet the application requirements for the Provisional Level A Qualification Certificate. As soon as we attained the aforementioned personnel threshold, we immediately submitted our application in April 2010 and successfully obtained the Provisional Level A Qualification Certificate on December 20,

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2010. As we started formal operations of some of our wastewater treatment facilities before receiving the Provisional Level A Qualification Certification on December 20, 2010, we may be subject to a fine not exceeding RMB120,000 in total for our relevant wastewater treatment facilities. However, our PRC legal counsel has advised us that we would not be subject to any forfeiture of profits earned prior to obtaining the Provisional Level A Qualification Certificate or any penalty other than the aforementioned fine. Further, we have obtained four separate written confirmations from the relevant environmental protection departments that all relevant project companies would not be subject to any additional penalties beyond the potential fine not exceeding an aggregate of RMB120,000. Our Directors believe that such potential maximum fine will not have a material or adverse impact on our results of operations or financial condition. As of the Latest Practicable Date, no such fine had been imposed on us by the relevant governmental authorities. Further, in January 2011, the relevant environmental protection authorities issued written confirmations that our project companies with operating wastewater treatment facilities at the time (comprising Guangzhou Xintao, Guangzhou Haitao, Longmen Xilin and Huaihua Tianyuan) met the relevant national and local standards for wastewater discharge as of the date of confirmation since each project company's respective establishment. Our PRC legal counsel has advised us that, in light of the aforementioned written confirmations, the customers of these project companies are not entitled to raise any claims regarding wastewater treatment services provided by these project companies prior to our obtaining the Provisional Level A Qualification Certificate and entering into the related entrustment agreements dated December 22, 2010.

We had applied for the Provisional Level A Qualification Certificate after undertaking a review of the relevant legal and regulatory requirements as part of the preparation for the Company's listing application, and upon the suggestion of the relevant provincial environmental protection authority for Guangzhou Xintao to apply for the Provisional Level A Qualification Certificate first. Prior to the expiry of the Provisional Level A Qualification Certificate, we intend to convert our Provisional Level A Qualification Certificate to a formal Level A Qualification Certificate, which will be valid for three years. Our PRC legal counsel has advised us that, even if the aforementioned requirement of "one year or more without violating any laws or regulations" is applied to the circumstances when the Provisional Level A Qualification Certificate is to be converted to the formal Level A Qualification Certificate, there will still be no legal impediments to the Group obtaining a formal Level A Qualification Certificate so long as we continue to meet the standards set out above after obtaining the Provisional Level A Qualification Certificate for more than 300 days. The requirement of "one year or more without violating any laws or regulations" would also have been satisfied, because one year has already passed since Guangzhou Xintao was found to have violated the wastewater discharge standard and illegal discharge of wastewater in November 2009. Our PRC legal counsel is of the opinion that there are no legal impediments for Guangzhou Xintao to convert our Provisional Level A Qualification Certificate to a formal Level A Qualification Certificate if the aforementioned conditions are satisfied. However, our PRC legal counsel has advised us that should we fail to obtain the formal Level A Qualification Certificate after the expiry of the Provisional Level A Qualification Certificate, we may be required to suspend operations of our facilities unless we were to be able to set up an entrustment arrangement with a third party in possession of a valid Qualification Certificate.

We had never been notified by the relevant governmental authorities to suspend or stop operations of our facility as a result of not obtaining the relevant Qualification Certificate for Guangzhou Xinzhou Industrial Park Treatment Facility. We applied for the Provisional Level A Qualification Certificate in April 2010. After a prolonged approval process, we obtained the Provisional Level A Qualification Certificate from the relevant environmental department on December 20, 2010. We had not been notified by the relevant governmental authorities to suspend or stop operations of our facility as a result of not obtaining the relevant Qualification Certificate. Accordingly, we were able to operate Guangzhou Xinzhou Industrial Park Treatment Facility without a Qualification Certificate prior to December 20, 2010.

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Our subsidiaries have not applied to obtain the relevant Qualification Certificate themselves because better utilization of resources can currently be achieved by having Guangzhou Xintao obtain the Qualification Certificate and operate the relevant plants on behalf of the relevant plants through entrustment agreements. The application for a Qualification Certificate by each of our subsidiaries would have involved a significant amount of resources and was not necessary in view of the entrustment agreements entered into between Guangzhou Xintao and each of the relevant subsidiaries, as confirmed by our PRC legal counsel. Specifically, we have noted that the Provisional Level A Qualification Certificate application process can take over half a year, and we have calculated that the cost for each subsidiary to meet the approval requirements is estimated to be approximately RMB500,000 in laboratory equipment expenditures and RMB750,000 per year in personnel expenditures. Under the entrustment agreements, Guangzhou Xintao shall (i) select several specialist technicians to administer the operation of each wastewater treatment plant, including the daily management of process flow, laboratory, central control room and on-line equipment as well as operations and maintenance of equipment; and (ii) assist the relevant subsidiaries in conducting environmental management formalities, including the submission of relevant operation records and the acceptance of the inspection and supervision of environment protection authorities. Our PRC legal counsel is of the opinion that such entrustment arrangements are neither prohibited nor restricted by the BOT contracts between the relevant subsidiaries and local governments and/or their customers and that the relevant subsidiaries are not required to seek consent or endorsement from the local governments and/or their customers in this respect. It is our intention that when a project reaches a constructed wastewater treatment capacity of approximately 100,000 m³ per day, the relevant project company will apply for its own Qualification Certificate. We have calculated that at this level of constructed wastewater treatment capacity, it makes economic sense for such project companies to apply for individual Qualification Certificates. According to our current plans and estimates, two project companies are approaching this level of constructed wastewater capacity. Yonghe Haitao Wastewater Treatment Facility (Phase II) is set to be completed by the end of 2011, and the project company will apply for the Qualification Certificate at the beginning of 2012. Huaihua Tianyuan Wastewater Treatment Facility (Phase II) is set to be completed by the first quarter of 2012 and the project company will apply for the Qualification Certificate at that time.

We are also required under PRC law to obtain the relevant Pollutants Discharge Permits for the operation of each of our wastewater treatment facilities. We have obtained the Pollutants Discharge Permit for our Guangzhou Xinzhou Industrial Park Treatment Facility, Longmen Xilin Treatment Facility, Yonghe Haitao Treatment Facility (Phase I) and Huaihua Tianyuan Treatment Facility (Phase I). Our PRC legal counsel had also confirmed that we had obtained the relevant Water-drawing Permits. Details of our approvals, permits, licenses and certificates are set out in the sections headed “Regulations — Land Use Rights and Construction Land Planning Permit,” “Regulations — Water-Drawing Permit,” “Regulations — Environmental Protection” and “Regulations — Qualifications for the Operation of Environmental Pollution Treatment Facilities” of this prospectus. The Controlling Shareholders have agreed to indemnify us for all the losses and damages suffered by us as a result of us having failed to obtain, or if we fail to obtain or maintain any approvals, permits, licenses and certificates required for our operations.

On November 29, 2009, the environmental department of Zengcheng city, Guangdong province notified us that Guangzhou Xintao violated the wastewater discharge standard and had illegally discharged untreated wastewater from the treatment facility. Guangzhou Xintao suspended its operation during the period from November 30, 2009 to December 1, 2009 to rectify the problems. Guangzhou Xintao rectified the violations and re-commenced operations of the treatment facility on December 2, 2009. Guangzhou Xintao was charged with a fine of approximately RMB352,000 for the alleged violation and payments for the above said fines were made on December 4, 2009. Our PRC legal counsel confirmed that based on the certification documents issued by the relevant environment protection authorities, we have not been involved in any other similar non-compliance matters, nor

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subject to any other administrative penalties. To the best knowledge of our Directors, the alleged violation of the wastewater discharge standard and illegal wastewater discharge in 2009 resulted from a damaged valve in a maintenance pipe, which led to an inadvertent leakage of wastewater. We use a maintenance pipe to drain away residue wastewater from a distribution tank during regular maintenance of our wastewater treatment facility. In February 2009, when we conducted our regular maintenance, we discovered that the valve of the regular maintenance pipe being used was not functioning properly as the residue wastewater in the tank did not completely drain off. To rectify the situation, we linked a new pipe with a functioning valve to the regular maintenance pipe, so as to allow excess wastewater in the distribution tank to properly drain away through the maintenance pipe for future maintenance. Subsequently, due to corrosion, the valve of the new pipe became damaged, resulting in inadvertent leakage of wastewater from the new pipe at a time when we were not performing maintenance of the facility. To the best knowledge of our Directors, there had been no malice involved in this alleged violation of wastewater discharging standard and illegal discharge of wastewater. Immediately after becoming aware of the incident, our Directors cooperated with the investigation by the relevant environmental department and took corrective measures, including cooperating with the relevant enforcement department to perform excavation and rectification, and sealing all possible leaking discharge outlets. At the same time, we installed our reclaimed water flow meters which enable us to detect unauthorized discharge of wastewater. As the inadvertent discharge of wastewater was a result of leakage due to a corrosive valve, we do not believe we would have derived any material cost-savings if we had met the wastewater discharge standards and discharge treated wastewater properly during this incident. To the best knowledge of our Directors, the amount of such illegal discharge of wastewater was not material and as such, no material cost savings was derived by us during this alleged incident. Had we been aware of the corrosion prior to the incident, the cost that needed to be incurred to repair the valve would have been minimal. To the best knowledge of our Directors, the alleged incident had minimal, if any, impact on the environment and residents of the vicinity. To the best belief of our Directors, the risk of litigation arising from such pollution is minimal as the incident did not lead to any health, social or environmental issues in the vicinity. The discharging outlet of Guangzhou Xintao Industrial Park Treatment Facility is located at the downstream of the river where there is no water intake point for agricultural or domestic use. Given that the discharging outlet is at the mouth of a river that flows into the ocean, we believe the potential impact on the residents of the vicinity was minimal. As such, the discharge of the wastewater in connection with the alleged incident would have minimal impact, if any, on the environment. As a result of the alleged violation of wastewater discharge standard and illegal discharge of untreated wastewater, we were charged with an administrative fine of approximately RMB352,000 on November 29, 2009 and paid such fine on December 4, 2009. Our PRC legal counsel is of the opinion that other than such fine of approximately RMB352,000, there will not be any other fines or penalties for the same incident.

In 2010, Guangzhou Xintao was one of 20 enterprises in Guangdong province which were listed to make rectifications in 2010. The rectification had resulted from the incident relating to the illegal discharge of untreated wastewater in 2009. On November 28, 2009, the Ministry of Environmental Protection Inspection Center of Southern China (國家環保部華南督查中心), along with the Guangzhou Municipal Environmental Protection Bureau (廣州市環保局) and the Zengcheng Environmental Protection Bureau (增城市環保局), carried out investigations into the illegal wastewater discharge incident. Guangzhou Xintao suspended its operations from November 30, 2009 to December 1, 2009 to rectify the non-compliance according to the specifications and requirements by the relevant government authorities. On December 3, 2009, the local government of Zengcheng city, Guangdong province and the officials from both Guangdong provincial and Guangzhou city environmental protection authorities conducted a site inspection of our facility. On December 6, 2009, we applied to the Zengcheng Environmental Protection Bureau for acceptance of our rectification. On

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December 11, 2009, the Zengcheng Environmental Protection Bureau conducted on-site inspection of our facility and confirmed that we had sufficiently rectified the non-compliance. Based on the verbal confirmation of the Environmental Protection Agency of Guangdong Province (廣東省環保廳), we were removed from such list.

Our PRC legal counsel has advised that, as of Latest Practicable Date, we had obtained all the material environmental licenses and certificates for each of our projects based on their respective stages of development. Except for the violation by Guangzhou Xintao of the wastewater discharge standard and illegal discharge of untreated wastewater in 2009 and the operation of wastewater treatment facilities without a Level A Qualification Certificate, our PRC legal counsel had advised us that during the Track Record Period and as of the Latest Practicable Date, we had complied in all material respects with the relevant environmental laws and regulations. Except for the fine of approximately RMB352,000 in relation to the violation by Guangzhou Xintao of wastewater discharge standard and illegal discharge of untreated wastewater in 2009, no other penalty or sanction was imposed on us by the PRC environmental authorities during the Track Record Period and as of the Latest Practicable Date.

While we are currently in compliance with applicable environmental laws and regulations in all material respects, we cannot assure you that situations giving rise to material environmental liabilities will not occur in the future. For more details, please refer to the sections headed “Risk Factors — Risks Relating to Our Business — If we fail to obtain or maintain the approval, permits, licenses and certificates required for our operations, our business, financial condition and results of operations may be materially and adversely affected” and “Risk Factors — Risks Relating to Our Industry — Failure to comply with environmental, labor, health and safety laws and regulations in the PRC in which we operate, may adversely affect our business, financial condition and results of operations” in this prospectus. We recorded expenditures for our compliance with the applicable environmental laws and regulations during the Track Record Period. The environmental compliance costs were nil, nil and HK\$2.4 million during the years ended December 31, 2008, 2009 and 2010, respectively. The expenditure of HK\$2.4 million in 2010 for our compliance with the applicable environmental laws and regulations was primarily attributable to the wastewater discharge fees paid in connection with Guangzhou Xinzhou Industrial Park Treatment Facility for 2008, 2009 and 2010. Due to the delay in administrative processing by the local government, we received the invoices in connection with the wastewater discharge fees for the years 2008 and 2009 only in 2010. As such, the payment for such wastewater discharge fees for 2008, 2009 and 2010 was made only in 2010.

HEALTH AND SAFETY COMPLIANCE

Pursuant to national and local health and safety laws and regulations in China, we are required to provide our employees a safe working environment, which includes providing adequate protective clothing and gear, providing safety education and training and having dedicated safety management personnel, among other requirements. In addition, operators of certain wastewater treatment equipment must undergo special training and obtain special work permits. We also conduct regular inspection and maintenance checks on our equipment to ensure they are in compliance with 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 national and local health and safety laws and regulations in China. During the Track Record Period and up to the Latest Practicable Date, none of our employees had been involved in any major accident in the course of their employment and we had complied with the applicable national and local health and safety laws and regulations in all material respects, and the relevant PRC authorities have not imposed any sanctions or penalty on us for incidents of non-compliance of any health and safety laws or regulations in China.

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INSURANCE

We currently hold insurance policies that we believe are sufficient for our operations.

In accordance with applicable PRC regulations on social insurance and housing funds, we contribute to social insurance, including pension, medical insurance, unemployment insurance, occupational injuries insurance and childbirth insurance, as well as a housing fund for our employees. During the years ended December 31, 2008, 2009 and 2010 and the three months ended March 31, 2011, we made social insurance contributions for our employees in China in the amount of approximately HK\$293,000, HK\$371,000, HK\$503,000 and HK\$246,000, respectively. According to confirmations issued by respective government authorities, each of our PRC subsidiaries had made social insurance contributions for their employees in accordance with the requirements pursuant to the applicable laws and regulations and we had not been subject to any penalty, and there was no outstanding social insurance payment. Pursuant to confirmations issued by the local housing fund authority, each of the PRC subsidiaries has made housing fund contributions for our employees and had not been subject to any penalty (including the preceding penalties thereof, if any). According to our PRC legal counsel, we have complied with the statutory social insurance and housing fund obligations applicable to us in all material respects under PRC laws during the Track Record Period and up to the Latest Practicable Date.

For BOO projects, we maintain employee group insurance with China Pacific Property Insurance Co., Ltd. and we also maintain commercial insurance with China Pacific Property Insurance Co., Ltd. for claims of property damage arising from accidents on our property or relating to our operations or services. The risks we are insured against include those caused by natural disasters, such as fire or flood. We do not maintain property insurance for our raw materials used in our operations.

As advised by our PRC legal counsel, we are not required under PRC law to maintain insurance for the construction and operation of the facilities for our projects. Our projects do not impose an obligation on us or our customers to take up insurance on our projects. We do not maintain insurance for the construction and operation of the facilities for our projects. We are capable of purchasing such insurance but chose not to do so because it is not mandatory for us to purchase such insurance and we consider the risks normally associated with the construction and operations of our facilities not high. We maintain insurance for our employees covering accident claims arising during the course of construction and insurance covering claims of property damage relating to our operations. Furthermore, we have developed and implemented a safety management policy and have provided safety training for our operating personnel and ensured that the operators have undergone special training. Based on the overall assessment of the operating risk for our present business operations, our Directors are of the view that such insurance is not necessary. In future, as our operations expand, we shall reassess such operating risk and determine if additional insurance is necessary.

During the Track Record Period and up to the Latest Practicable Date, no material workers' compensation claims, third party liability claims or accident compensation claims had been filed against us. We cannot assure you that such claims will not be brought against us in the future. Please refer to the section headed "Risk Factors — Risks Relating to Our Business — Our inability to maintain our competitiveness could adversely affect our financial performance."

COMPETITION

The wastewater treatment and industrial water supply market in the PRC has evolved significantly over the past decade. We operate in a highly competitive and fragmented market. We face competition primarily from private wastewater and industrial water supply solutions providers in the PRC and a number of international environmental services companies. We believe companies engaged

BUSINESS

in the wastewater treatment and industrial water supply industry mainly compete on the following factors: project execution capability, research and development capability, understanding of the local governmental landscape, quality and price of wastewater treatment and industrial water supply services, brand reputation, marketing and customer services.

Certain of our competitors may have greater brand recognition, economies of scale, or longer track records and more established relationships in certain markets in which we operate. However, we believe that we can compete effectively with our competitors principally due to our following competitive strengths: our strong research and technical expertise, our extensive project execution capabilities, our cost-effective, integrated and centralized treatment solutions, and our strong brand recognition. For further discussion of the competitive landscape we face for our services, please refer to the section headed “Industry Overview.”

INFORMATION SYSTEM

We have invested in our information system in order to improve the efficiency of our operations. Currently, we have in place a central computerized control system for each of our treatment plants to track data and system parameters and detailed records in the daily operation of our major facilities and equipment. The system can also track data on the wastewater discharge volume as well as its specifications including COD, ammonia nitrogen and pH levels. In addition, we have in place a financial management system which manages the financial accounting and analysis of our headquarters, subsidiaries and offices. During the Track Record Period, we were not aware of any material breakdown of our information system which adversely affected our operations.

INTELLECTUAL PROPERTY

We believe that our technologies and techniques are critical to our success and are important to our brand recognition, our profitability and our future business prospects. As of the Latest Practicable Date, we had applied for patents for three of our technologies including (i) a type of textile and dyeing wastewater solid removal equipment (紡織印染水格渣設備); (ii) a type of anaerobic treatment equipment (厭氧反應處理設備); and (iii) a type of solar industrial sludge drying system (太陽能工業廢熱污泥乾化系統). In addition, one of our current employees, who had previously applied for the patent rights to the “Solar Reclaimed-Water Hybrid-Heat Source Sludge Drying System” (太陽能中水雙熱源熱泵污泥乾化系統) during the course of his employment with us, had transferred the utility patent and the application rights to the invention patent to us pursuant to two respective patent transfer agreements entered into with us on December 31, 2010. The State Intellectual Property Office of the PRC subsequently approved both such transfers. For our unpatented technologies, we currently rely on confidentiality pledges by our executive officers and R&D personnel to protect our intellectual property rights. In the future, we may further apply for the registration of certain of the technologies and techniques which we have developed.

In order to protect the confidentiality of our research and development results, we impose confidentiality obligations on employees in our research and development department and on the senior staff of our public relations and operation departments. Pursuant to such obligations, such employees and senior staff agree not to reveal any confidential information in relation to the Group. In addition, there is a segregation of duties among personnel involved at the different stages of our engineering process. We believe this helps to reduce the risk of any of our staff member coming into possession of comprehensive technical know-how related to the entire engineering process. Please refer to the section headed “Risk Factors — Risks Relating to Our Business — We may infringe on the intellectual property rights of others and may be unable to adequately safeguard our technology, and we may face claims that may be costly to resolve or limit our ability to use such technology in the future.”

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Our Directors confirmed that during the Track Record Period and as of the Latest Practicable Date, we had not been involved in any proceedings in respect of, and we had not received notice of any claims of infringement of any intellectual property rights that may be threatened or pending, in which we may be involved whether as a claimant or as a respondent.

EMPLOYEES

As of December 31, 2010, we employed a total of 276 full time employees. A breakdown of our employees by function is shown below:

<u>Employee Type</u>	<u>Number of Employees</u>
General and administration (including public relations)	112
Finance	8
Quality control (including laboratory and R&D staff)	24
Procurement	4
Operation	106
Engineering and maintenance	<u>22</u>
Total	<u><u>276</u></u>

Compensation for our employees includes basic wages, variable wages, bonuses and other staff benefits. For the years ended December 31, 2008, 2009 and 2010, our employee benefit expenses were approximately HK\$4.2 million, HK\$4.6 million and HK\$7.0 million, respectively.

During the Track Record Period, we complied with the applicable labor laws and regulations in all material aspects.

In accordance with applicable PRC regulations on social insurance and housing funds, we contribute to social insurance, including pension, medical insurance, unemployment insurance, occupational injuries insurance and childbirth insurance, as well as a housing fund for our employees. Please refer to the paragraph headed “— Insurance” in this section.

REAL PROPERTY

Properties owned by us

Our head office is located in 17/F, Best Centre Tower, 321 Gangkou Road, Xintang Town, Zengcheng, Guangzhou, China. As of April 30, 2011, we owned two parcels of land, with an aggregate site area of approximately 55,460.8 square meters. We own several buildings and units, with an aggregate gross floor area of approximately 2,753.5 square meters. These properties are occupied by us for, among other things, our BOO projects. All of the properties we own are located in Xintang Town, Zengcheng, Guangdong province. DTZ, an independent valuer, has valued our property interests as of April 30, 2011 at approximately RMB78.5 million. Details of these properties are set out in Appendix IV “Property Valuation Report” to this prospectus. As advised by our PRC legal counsel, we have obtained all the land use right certificates of all our lands and ownership certificates for all our self-owned properties.

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Properties occupied by us under concession agreements

For our BOT projects, after we have entered into the relevant concession agreement, we begin applying for the various certificates and permits that we need in order to commence construction of the treatment facilities:

- **construction land use planning permit** (建設用地規劃許可證). A permit authorizing an entity to begin the surveying, planning and design of a parcel of land. It allows the entity to apply for the land use rights certificate;
- **construction work planning permit** (建設工程規劃許可證). A certificate indicating government approval for an entity's overall planning and design of the project. It allows the entity to apply for a commencement of construction work permit; and
- **construction work commencement permit** (建築工程施工許可證). A permit required for the commencement of construction. It allows the entity to apply for the building ownership certificate which is subject to other conditions including passing the acceptance check on completion of construction.

As of April 30, 2011, we had occupied three parcels of land in connection with our BOT business with an aggregate site area of approximately 240,917.6 square meters. Our BOT project companies occupied these parcels of land for the construction and operation of wastewater treatment facilities pursuant to the relevant concession agreements. As advised by our PRC legal counsel, pursuant to three concession agreements made between the municipal government or local authority of the location in which our BOT projects are situated and our BOT project companies, we are entitled to use and occupy: (i) a piece of land in Xintang Town, Zengcheng, Guangzhou, Guangdong province with a site area of 141,274.6 square meters ("Land A") for a license period of 25 years from August 31, 2010, (ii) a piece of land in Longmen County, Huizhou, Guangdong Province with a site area of 19,355.0 square meters ("Land B") for a license period of 30 years from August 12, 2009 and (iii) a piece of land in Huaihua Industrial Zone, Hunan province with a site area of approximately 80,288.0 square meters ("Land C") for a license period of 25 years from May 1, 2010. We have obtained all the requisite approvals and permits for construction of: (i) the buildings and structures on Land A with a total gross floor area of approximately 13,457.9 square meters, (ii) the buildings and structures on Land B with a total gross floor area of approximately 3,388.9 square meters and (iii) the buildings and structures on Land C with a total gross floor area of approximately 13,596.4 square meters, respectively. As we enjoy the right to use and occupy Land A, Land B and Land C as a licensee only, there is no need for us to obtain the building ownership certificates to these buildings and structures. Our independent property valuer, DTZ, has attributed no commercial value to these properties as we occupy these properties pursuant to the relevant concession agreements and we cannot freely transfer the relevant properties.

LEGAL PROCEEDINGS

During the Track Record Period and as of the Latest Practicable Date, we were not involved in any litigation, arbitration or administrative proceedings and no litigation, arbitration or claim is known to our Directors to be pending or threatened by or against us, that we believe would have a material adverse effect on our financial condition or results of operations. As is common with many companies, from time to time, we may be involved in legal proceedings relating to claims arising out of our operations in the ordinary course of business. For further information, please refer to Appendix VI "Statutory and General Information — Other Information — Litigation" to this prospectus.

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LEGAL AND REGULATORY COMPLIANCE

The following table sets forth a summary of our past and present material legal and regulatory non-compliance:

<u>Project company involved</u>	<u>Nature of non-compliance</u>	<u>Legal implications and/or quantified historical and potential financial impacts</u>	<u>Current status</u>	<u>Remedial actions taken or to be taken</u>
Guangzhou Xintao	Wastewater discharge standard violation and illegal untreated wastewater discharge	Fine of approximately RMB352,000	Guangzhou Xintao is currently operating in compliance with regulations and standards.	Payment for the fine was made on December 4, 2009 and Guangzhou Xintao rectified the non-compliance by December 1, 2009.
Guangzhou Xintao Longmen Xilin Guangzhou Haitao ⁽¹⁾ Huaihua Tianyuan	Operated wastewater treatment facilities without a Level A Qualification Certificate (before December 2010)	We may be subject to a fine not exceeding RMB120,000 in total for our relevant wastewater treatment facilities.	As of the Latest Practicable Date, no such penalty had been imposed on us by the relevant governmental authority.	Guangzhou Xintao obtained the Provisional Level A Qualification Certificate on December 20, 2010, and entered into entrustment agreements with the other subsidiaries on December 22, 2010.

(1) The relevant regulations do not explicitly require a Qualification Certificate to be obtained for trial operations. Guangzhou Haitao had been in trial operations before entering into the entrustment agreement with Guangzhou Xintao on December 22, 2010. Guangzhou Haitao has been included in this table for completeness, in order to show the maximum potential financial impact on the Group.

Our PRC legal counsel has advised that, as of the Latest Practicable Date, we had obtained all the material environmental licenses and certificates for each of our projects based on their respective stages of development. Except for the violation by Guangzhou Xintao of wastewater discharge standard and illegal discharge of untreated wastewater in 2009 and the operation of wastewater treatment facilities without a Level A Qualification Certificate, our PRC legal counsel had advised us that during the Track Record Period and as of the Latest Practicable Date, we had complied in all material respects with the relevant environmental laws and regulations. Except for the fine of approximately RMB352,000 in relation to the violation by Guangzhou Xintao of wastewater discharge standard and illegal discharge of untreated wastewater in 2009, no other penalty or sanctions were imposed on us by the PRC environmental authorities during the Track Record Period and as of the Latest Practicable Date. Our PRC legal counsel has confirmed that we had obtained all the material licenses, certificates and permits from appropriate regulatory authorities for our business operations in the PRC.

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To ensure compliance with the applicable PRC laws and regulations, we have engaged an external legal advisor on a retainer basis since December 2010 for a period of one year with effect from January 1, 2011. The Company intends to renew the retainer after the expiration of the same. Where appropriate and necessary, such external legal advisor will provide us with legal advice relating to the legal and regulatory requirements in connection with our operations and other matters arising in the ordinary course of business. To further ensure such compliance, we have also implemented legal education programs for our management personnel covering, in particular, environmental laws and regulations. Additionally, we have improved the central real-time monitoring systems for our facilities and technical training programs for our employees.

RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

RELATIONSHIP WITH THE CONTROLLING SHAREHOLDERS

Upon completion of the Global Offering, Mr. Tsui will own 98% of Keen Vast, which will in turn be interested in 66.49% of our issued share capital taking no account into Shares which may be issued pursuant to the exercise of the Over-allotment Option or Shares which may be issued upon the exercise of options granted under the Share Option Scheme. Mr. Tsui and Keen Vast will be our Controlling Shareholders. Our Directors consider that we will be able to operate independently from our Controlling Shareholders and their respective associates (other than our Group) upon Listing for the following reasons:

Delineation of Businesses

Other than our business, Mr. Tsui controls Hong Kong To Kee, which is engaged in investment businesses, does not compete directly or indirectly with our business. On January 29, 2011, Hong Kong To Kee, owned by Mr. Tsui as to 50% and his spouse as to 50%, entered into a cooperation agreement (the “Original Guangyuan Agreement”) with Xi Zhou Enterprises in respect of the development of the Sichuan Guangyuan Industrial Park. Pursuant to the terms of the Original Guangyuan Agreement, Xi Zhou Enterprises will take over the rights and obligations of Hong Kong To Kee on the management of the industrial park with the cooperation of Hong Kong To Kee. Hong Kong To Kee will only be responsible for the liaison with the local government and will not share in the profits or contribute any capital for the development, and Xi Zhou Enterprises will be responsible for the contribution of the capital required for the development of the industrial park, and managing its construction and development. Hong Kong To Kee has entered into the development agreement for the Guangyuan textile industrial park due to its relationships with the local government authorities and is not engaged in wastewater treatment services. Our Directors confirm that the companies controlled by Mr. Tsui are not engaged in businesses that compete with us.

On March 29, 2011, Hong Kong To Kee and Xi Zhou Enterprises entered into an agreement (the “New Guangyuan Agreement”) with, among others, the Sichuan Guangyuan Municipal Government and the Guangyuan Lizhou District Government. Pursuant to the New Guangyuan Agreement, we will develop wastewater treatment and industrial water supply facilities in Guangyuan’s textile industrial park. On April 28, 2011, Xi Zhou Enterprises and Hong Kong To Kee entered into a termination agreement, pursuant to which the Original Guangyuan Agreement was replaced and substituted by the New Guangyuan Agreement.

The other companies controlled by Mr. Tsui were not injected into our Group as part of our Reorganization, as the businesses conducted by such companies do not form part of our core business and are not in line with our focus as being a leading wastewater treatment services company.

Independent Business Operations

Our Company holds the relevant licences that are material to our business operations and we have such operation capacity of our own whether in terms of capital, equipment or employees, or customers and suppliers, which allow us to operate our businesses independently.

We have entered into a memorandum of agreement for our Hong Kong office with Hong Kong To Kee to ensure our continuous use of the relevant property after Listing. As the space involved is not material and can be easily replaced by alternative property leased from the open market, our Directors are of the view that our Company is capable of operating independently of our Controlling Shareholders.

None of the Directors and our Controlling Shareholders has any interest in a business which competes or is likely to compete, whether directly or indirectly with our Company’s business.

RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

Financial Independence

We have an independent financial system and make financial decisions according to our own business needs. During the Track Record Period, there were amounts due to us from the companies controlled by Mr. Tsui.

As at the Latest Practicable Date, there are no loans or guarantees provided by the Controlling Shareholders or their associates to us or for our benefit, and there are no loans or guarantees provided by us to the Controlling Shareholders or their associates. Therefore, there is no financial dependence on the Controlling Shareholders or their associates.

Management Independence

The Board currently comprises five executive Directors and three independent non-executive Directors. The day-to-day management of our Company is delegated to a team of executive Directors and senior management, who are responsible for the management and the decision-making process of our Company.

Mr. Tsui, our chairman, managing director and executive Director, is also a director of Hong Kong To Kee, which is owned as to 50% by Mr. Tsui and 50% by his spouse. Except for the business relationships as disclosed in “Risk Factors” section of this prospectus, there is no management dependence between our Group and Hong Kong To Kee.

Our Directors are satisfied that we are capable of carrying on our business independently from any of our Controlling Shareholders and their respective associates (other than our Group) after our Company is listed on the Stock Exchange.

NON-COMPETITION UNDERTAKINGS

In order to eliminate any existing or future competition with us, each of our Controlling Shareholders has undertaken to us in the Deed of Non-Competition that it/he/she will not, and will procure its/his/her associates (other than members of our Group) not to, engage in any business involving the development of wastewater treatment facilities and the provision of wastewater treatment and industrial water supply services, including (without limitation) the following activities:

- acquiring, holding, developing, transferring, disposing or otherwise dealing in, whether directly or indirectly, wastewater treatment facilities development business or related investments;
- engaging, having a right or in any way having an economic interest, in the promotion or development of or investment in wastewater treatment facilities development business; or
- acquiring, holding, transferring, disposing or otherwise dealing in any option, right or interest over any of the matters set out in the two paragraphs above; except for acquiring, holding, transferring, disposing or otherwise dealing in, directly or indirectly, shares of any company, joint venture, corporation or entity of any nature, whether or not incorporated, with any interest in the matters set out in the three paragraphs above so long as their aggregate interest in any such entity is less than 5% of its equity interest and as long as they do not control the board of such entity.

The Deed of Non-Competition will lapse automatically if our Controlling Shareholders and their associates cease to hold, whether directly or indirectly, any of our Shares.

The Deed of Non-Competition also provides that:

- our independent non-executive Directors shall review, at least on an annual basis, the compliance with the Deed of Non-Competition by our Controlling Shareholders;

RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

- each of our Controlling Shareholders has undertaken to us that it/he/she will, and will procure its/his/her associates to use its/his/her best endeavors to provide all information necessary for the annual review by the independent non-executive Directors for the enforcement of the Deed of Non-Competition;
- we will disclose the review by the independent non-executive Directors on the compliance with, and the enforcement of, the Deed of Non-Competition in our annual report or by way of announcement to the public in compliance with the requirements of the Listing Rules; and
- each of our Controlling Shareholders will make an annual declaration in our annual report on the compliance with the Deed of Non-Competition in accordance with the principle of voluntary disclosure in the corporate governance report.

CONNECTED TRANSACTIONS

OVERVIEW

We have entered into a number of agreements with the associates of Mr. Tsui, a Director and a substantial shareholder in our Company, in respect of the licensing arrangement of a property from and the provision of wastewater treatment services to such associates of Mr. Tsui. As Mr. Tsui is a connected person of our Company, such transactions will constitute continuing connected transactions for our Company under the Listing Rules upon Listing.

Details of the continuing connected transactions of our Company upon Listing are as follows:

CONTINUING CONNECTED TRANSACTIONS EXEMPT FROM THE REPORTING, ANNUAL REVIEW, ANNOUNCEMENT AND INDEPENDENT SHAREHOLDERS' APPROVAL REQUIREMENTS

Property Lease

On April 13, 2011, we entered into a memorandum of agreement with Hong Kong To Kee in respect of a property totaling approximately 522 square meters in Hong Kong, pursuant to which we are permitted by the landlord to occupy and use such property as a licensee from April 15, 2011 to March 31, 2012. Hong Kong To Kee is a company incorporated in Hong Kong and is owned by Mr. Tsui as to 50% and his spouse as to 50%. Accordingly, Hong Kong To Kee is a connected person of the Company and the licensing arrangement under the memorandum of agreement will constitute a continuing connected transaction for our Company upon Listing. Pursuant to the memorandum of agreement with Hong Kong To Kee, the term is less than 3 years and the licensing fee is determined based on an annual rent, rates, government rent, management fee, estimated air-conditioning and utility charges of approximately HK\$250,000. DTZ Debenham Tie Leung Limited, our property valuer, confirmed that the rent payable under the memorandum of agreement is comparable to the prevailing market rates for properties of similar quality in neighboring areas to which the property is located.

Given that the memorandum of agreement was entered into based on prevailing market rates, our Directors (including our independent non-executive Directors) consider that the licensing fee payable under the memorandum of agreement is fair and reasonable, and the memorandum of agreement was entered into on normal commercial terms.

Given that the applicable ratios are on an annual basis less than 0.1%, the licensing arrangement under the memorandum of agreement constitutes a continuing connected transaction for our Company which is exempt from the reporting, annual review, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

CONTINUING CONNECTED TRANSACTIONS WHICH ARE SUBJECT TO THE REPORTING, ANNUAL REVIEW, ANNOUNCEMENT AND INDEPENDENT SHAREHOLDERS' APPROVAL REQUIREMENTS

Provision of Wastewater Treatment Services

Guangzhou Haitao has been providing wastewater treatment services to Tian Tian as part of its ordinary and usual course of business. As Tian Tian is owned as to 87.3% by Hong Kong To Kee, which is a company controlled by Mr. Tsui and his family, a Director and a substantial shareholder of our Company, our provision of the wastewater treatment services to Tian Tian will constitute a continuing connected transaction for our Company upon Listing.

Since Guangzhou Haitao only commenced its operation in June 2010, no wastewater treatment services have been provided by us to Tian Tian for the years ended December 31, 2008 and 2009. Wastewater treatment services provided by us to Tian Tian for the period from June 30, 2010 to March 31, 2011 amounted to approximately HK\$4.7 million.

CONNECTED TRANSACTIONS

On June 14, 2011, Guangzhou Haitao entered into a master wastewater treatment agreement (the “Tian Tian Agreement”) with Tian Tian pursuant to which it agreed to provide wastewater treatment services to Tian Tian for a term of three years subject to an annual cap not exceeding HK\$8,280,000, HK\$10,350,000 and HK\$12,916,800 for each of the three financial years ending December 31, 2011, 2012 and 2013, respectively. The annual caps were based on the projected demand of wastewater treatment services by Tian Tian, which amounted to approximately 24,000 tonnes per month, 28,800 tonnes per month and 34,560 tonnes per month for each of the three financial years ending December 31, 2011, 2012 and 2013, respectively, and such projected demand are estimated based on historical volumes with a 20% increase each year, with reference to the market rates for wastewater treatment services of a similar nature that were provided to independent third parties by independent providers of similar services during the Track Record Period.

Given that the wastewater treatment services are being provided based on prevailing market rates, our Directors (including our independent non-executive Directors) consider that the Tian Tian Agreement was entered into on normal commercial terms and is fair and reasonable to our Company and the shareholders as a whole. As the applicable ratios (other than the profit ratio) are on an annual basis more than 5%, the transactions under the Tian Tian Agreement constitute continuing connected transactions for our Company which are subject to the reporting, annual review, announcement and independent shareholders’ approval requirements under Chapter 14A of the Listing Rules.

CONFIRMATIONS

Directors’ Confirmation

The Directors (including the independent non-executive Directors) confirmed that licencing arrangement under the memorandum of agreement and the non-exempt continuing connected transactions under the Tian Tian Agreement have been entered into in the ordinary and usual course of business of our Company, were conducted on normal commercial terms, and are fair and reasonable to the Group and in the interests of the Company and the Shareholders as a whole. The Directors (including the independent non-executive Directors) further confirmed that the proposed annual caps in respect of all the non-exempt continuing connected transactions are fair and reasonable and are in the interests of the Shareholders as a whole.

Sole Sponsor’s Confirmation

We understand that the Sole Sponsor is of the opinion that, after review of the relevant documentation and historical figures provided by us, the non-exempt continuing connected transactions, have been entered into in the ordinary and usual course of business of our Company, on normal commercial terms, and are fair and reasonable and in the interests of the Shareholders as a whole, and the annual caps are fair and reasonable.

WAIVER FROM THE STOCK EXCHANGE

On the basis of the above, the Company has applied to the Stock Exchange for a waiver under Rule 14A.42(3) of the Listing Rules from strict compliance with the announcement and independent shareholders’ approval requirements in respect of the non-exempt continuing connected transactions of our Company.

DIRECTORS AND SENIOR MANAGEMENT

DIRECTORS

Our Board currently consists of eight Directors, comprising five executive Directors and three independent non-executive Directors. The powers and duties of our Board include convening general meetings and reporting our Board's work at our Shareholders' meetings, determining our business and investment plans, preparing our annual financial budgets and final reports, formulating proposals for profit distributions and for the increase or reduction of our registered capital as well as exercising other powers, functions and duties as conferred by our Memorandum and Articles of Association. We have entered into service contracts with each of our executive Directors. We have also entered into letters of appointment with each of our independent non-executive Directors.

The following table sets forth certain information in respect of our Directors.

Name	Age	Position
Mr. TSUI Cham To (徐湛滔)	44	executive Director and chairman and managing director
Mr. LU Yili (盧已立)	36	executive Director
Mr. XU Ju Wen (徐炬文)	36	executive Director and vice president
Mr. XU Shu Biao (徐樹標)	45	executive Director and chief operating officer
Mr. XU Zi Tao (徐子滔)	41	executive Director
Mr. XU Zhen Cheng (許振成)	58	independent non-executive Director
Mr. LIU Yung Chau (廖榕就)	57	independent non-executive Director
Mr. LAM Ka Wai, Graham (林家威) . .	43	independent non-executive Director

Executive Directors

Mr. TSUI Cham To (徐湛滔), aged 44, is one of the founders, chairman, managing director and executive Director of our Company. He was appointed as an executive Director on November 30, 2010. He is a brother of Mr. Xu Zi Tao and is a cousin of Mr. Xu Ju Wen. Mr. Tsui has approximately 10 years of experience in the wastewater treatment and industrial water supply industry and he is the founder, and currently the chairman, of Hong Kong To Kee and Guangzhou To Kee. Mr. Tsui was the vice president of the Guangdong Foundation for Justice and Courage (廣東省治安基金會). From April 2000 to March 2003, Mr. Tsui was a director of Hong Kong Yan Chai Hospital. Mr. Tsui was also an advisor to the Board of Directors of the Scientific Decision and Promotion Association of Guangdong Province Village and Town Heads in 2004. Mr. Tsui was appointed the chair professor at Faculty of Management of Shenzhen University. Furthermore, Mr. Tsui was the vice president of the Guangzhou Overseas Chinese Chamber of Commerce in 2006 as well as the vice president of the 10th, 11th and 12th Zengcheng Federation of Commerce and Industry (增城市工商業聯合會(總商會)). He was a member of the Permanent Committee of the 6th, 7th and 8th sessions of Zengcheng City Chinese People's Political Consultative Conference (增城市第六、七、八屆中國人民政治協商會議增城市委員會常委) and was named an excellent member (優秀委員) in the sessions of 2007 and 2010, respectively. He was also a member of the Permanent Committee of the 9th session of the Huizhou City Chinese People's Political Consultative Conference (政協惠州市第九屆委員會會員). In addition, Mr. Tsui was an honorary citizen of the Guangzhou Municipality and Huizhou Municipality as well as the honorary chairman of the 8th Committee of the Federation of the Zengcheng City Returned Chinese (增城市歸國華僑聯合會). Mr. Tsui completed his secondary education at Zengcheng Xintang Secondary School (增城市新塘中學) in 1981.

Mr. LU Yili (盧已立), aged 36, is an executive Director of our Company. He joined us in June, 2010 and was appointed as an executive Director on January 12, 2011. Mr. Lu is mainly responsible for overseeing our Group's external financing issues, dealing with potential investors as well as

DIRECTORS AND SENIOR MANAGEMENT

development of our business and asset restructuring program. Mr. Lu also has experience in corporate investment and business finance and has involved in the listing of Chinese companies on overseas stock exchanges. From 1997 to 2009, Mr. Lu served as a member of the management of various Singapore private companies, responsible for venture capital investments and consultancy on initial public offerings in China. Mr. Lu received a bachelor's degree in science at the National University of Singapore in 1997.

Mr. XU Ju Wen (徐炬文), aged 36, is an executive Director of our Company and vice president of our Group. He joined us in September, 2003 and has served as an executive Director since January 12, 2011. Mr. Xu is a cousin of Mr. Tsui and Mr. Xu Zi Tao. Mr. Xu is mainly responsible for all major affairs of the Group, including business development, marketing, strategic formulation and inter-departmental coordination. From 2001 to 2005, Mr. Xu has been the assistant general manager of Guangzhou To Kee, where he oversaw its general operation. From 2005 to 2007, Mr. Xu was the general manager of Guangzhou Zhugang Pier Limited (廣州珠鋼碼頭有限公司), a private company in the PRC, and since 2009, Mr. Xu has been its executive director. In 2010, Mr. Xu obtained a bachelor's degree in accountancy from China Central Radio and Television University (中央廣播電視大學).

Mr. XU Shu Biao (徐樹標), aged 45, is one of the founders of Xi Zhou Enterprises and executive Director of our Company. He was appointed as an executive Director on January 12, 2011. Mr. Xu has approximately 10 years of experience in the wastewater treatment industry. Mr. Xu is our chief operating officer, mainly responsible for the operation and implementation of the projects which the Company undertakes. Mr. Xu is also responsible for the start-up and development of our Company's operation team as well as staff recruitment. Mr. Xu is also experienced in the engineering, trade and processing industries. Mr. Xu was an assistant general manager at Guangzhou To Kee from 1995 to 2003. Mr. Xu has led the development, operation and management of Guangzhou Xintao and Guangzhou Kaizhou since 2003. Mr. Xu completed his secondary education at Zengcheng Xintang Secondary School (增城市新塘中學) in 1981. Mr. Xu is not related to Mr. Tsui.

Mr. XU, Zi Tao (徐子滔), aged 41, is an executive Director of our Company. He joined us in September, 2003 and was appointed as an executive Director on January 12, 2011. He is the brother of Mr. Tsui and a cousin of Mr. Xu Ju Wen. Mr. Xu has approximately eight years of experience in wastewater treatment industry. Currently, Mr. Xu is responsible for our Company's safety compliance and public services works, including liaising with local neighborhoods regarding infrastructure development. Mr. Xu was a manager at Guangzhou To Kee from 1994 to 2003. Since 2003, he has been an assistant general manager at both Guangzhou Xintao and Guangzhou Kaizhou, where he managed the operation and development of these companies. Mr. Xu completed his secondary education at Zengcheng Xintang Secondary School (增城市新塘中學) in 1985.

Independent non-executive Directors

Mr. XU Zhen Cheng (許振成), aged 58, was appointed on June 14, 2011, as an independent non-executive Director of our Company. Mr. Xu has approximately 30 years of experience in the research and engineering practice of environmental science and engineering technology, specializing in the research and engineering technology development of pollution control systems. Mr. Xu graduated from Sun Yat-Sen University (中山大學) in 1980 majoring in geography. Mr. Xu is currently the deputy director, researcher, and professor to PhD students at the South China Institute of Environmental Sciences, MEP. He is also one of the panel members in two national projects namely, Project 863RISK (重大環境污染事件應急技術系統研究開發與應用示範) and the National Science and Technology Theme Project "Water pollution control and treatment" (水體污染控制與治理). Mr. Xu has primarily been involved in the research and development of environmental science and engineering technology by holding various positions in the academia, including the researcher at SEPA and the assistant institute supervisor (副所長) of the companies set up to implement the research technologies developed by Huanan Environmental Science Research Institute. In the past five years,

DIRECTORS AND SENIOR MANAGEMENT

Mr. Xu mainly engaged in environmental and related interdisciplinary research, including but not limited to the “Dongjiang Water Pollution Control and Ecological Health Maintenance and Technology Demonstration” (東江水系污染控制與水生態健康維持技術綜合示範), the first national survey of the pollution sources for the urban livings and centralized wastewater pollution control facilities project (第一次全國污染源普查城鎮居民生活污染源與集中式污染治理設施產排污係數測算項目), Subtropical Agricultural Pollution Control Technology System (亞熱帶農業污染系統控制技術研究), Assessment of the Environmental Impact of the Cadmium Pollution Incident at North River, Guangdong (北江鎘污染應急工作), Environmental Planning of the Pearl River Delta / Province of Guangdong (珠江三角洲/廣東省環境規劃), Pearl River Valley Water Pollution Prevention Plan (珠江流域水污染防治規劃), New Era National Environment Strategy Research (新時期國家環境戰略研究), National Ecological Civilization Strategy Research (國家生態文明建設戰略研究), Water Quality Improvement and Ecological Restoration Technology Demonstration (水環境質量改善與生態修復技術研究及綜合示範), Advanced River Water Purification Technology Research and Demonstration (河道水質淨化強化技術研究與工程示範), City Waste Incineration Equipment Improvement and Industrialization Research (大規模城市垃圾焚燒發電系統關鍵設備聯合研究). Mr. Xu has received a total of 18 science and technology awards, at national, provincial and ministerial levels, as well as the special government allowances for outstanding contribution to the national science research granted by the State Department in 1992, the title as Outstanding Worker of the Environmental Science and Technology Research and Development by the Ministry of Environmental Protection of the PRC in 1996, the “Ding Ying Science and Technology Award” issued by the Province of Guangdong (廣東省丁穎科技獎) in 1999 and the title of Outstanding Worker of the National Environmental Protection System by the HR department of the Ministry of Environmental Protection of the PRC (at both provincial and ministerial levels) in 2000.

Mr. LIU Yung Chau (廖榕就), aged 57, was appointed on June 14, 2011 as an independent non-executive Director of our Company. Mr. Liu is a director of the Hong Kong Yuehua Group and Guangzhou Sun City Group Limited. Mr. Liu has been the chief president of the Hong Kong New Territories Commercial & Industrial General Association Limited, member of the standing committee of Guangdong CPPCC, member of the standing committee of Guangdong Federation of Industry, vice chairman of the Guangdong Chamber of Foreign Investors and chairman of the Zengcheng Federation of Industry. In addition, Mr. Liu has been awarded with the “World Outstanding Chinese Award” in May 2010. Mr. Liu has established the Guangzhou Sun City Group Limited and its affiliates covers a wide range of business areas including education, hotel and tourism, textile and apparel, real estate and financial investment industry. Mr. Liu has been given the honorary title of “May 1st Model Worker”.

Mr. LAM Ka Wai, Graham (林家威), aged 43, was appointed on June 14, 2011 as an independent non-executive Director of our Company. In 1990, Mr. Lam graduated from the University of Southampton, England with a bachelor of science degree in accounting and statistics. He is a member of the Hong Kong Institute of Certified Public Accountants and a member of the American Institute of Certified Public Accountants. Mr. Lam is currently the managing director and head of corporate finance of Guangdong Securities Limited and has approximately 17 years experience in investment

DIRECTORS AND SENIOR MANAGEMENT

banking as well as approximately four years of experience in accounting and auditing. In addition, Mr. Lam has been an independent non-executive Director of the following companies listed on the Growth Enterprise Market and the Main Board (as the case may be) of the Stock Exchange:

Period	Companies	Stock code
Main Board:		
September 27, 2004 to Present	Cheuk Nang (Holdings) Limited	131
October 1, 2005 to Present	Applied Development Holdings Limited	519
September 14, 2007 to Present	China Fortune Group Limited	290
January 29, 2008 to October 5, 2010 . .	China Oriental Culture Group Limited (formerly known as ZZNode Technologies Company Limited)	2371
March 25, 2008 to Present	International Resources Enterprise Limited (formerly known as China Sonangol Resources Enterprise Limited)	1229
October 3, 2008 to Present	Pearl Oriental Innovation Limited	632
January 4, 2010 to Present	Value Convergence Holdings Limited	821
Growth Enterprise Market:		
December 22, 2008 to Present	China Railway Logistics Limited	8089
August 5, 2009 to Jan 24, 2011	Finet Group Limited	8317
November 17, 2010 to May 16, 2011 . .	Hao Wen Holdings Limited	8019
March 24, 2011 to Present	Trasy Gold Ex Limited	8063

Although Mr. Lam is an independent non-executive director of eight other companies listed on the Stock Exchange, Mr. Lam expects that he will be able to devote sufficient time to the affairs of our Group and he will also make himself available to discuss any matters relating to our Group with other Directors on an ad hoc basis, as and when required. Mr. Lam believes that he has the capacity to devote sufficient time to our Group in discharge of his duties as one of our Directors. The Company is also satisfied that Mr. Lam can devote sufficient time to perform his duties as an independent non-executive Director.

Each of our Directors has not been involved in any of the events described under Rule 13.51(2)(h) to (v) of the Listing Rules.

SENIOR MANAGEMENT

The following table sets forth certain information in respect of our senior management. For Directors who also hold executive positions, please refer to “Directors” above for more information.

Name	Age	Position
Mr. TSUI Cham To (徐湛滔)	44	executive Director and chairman and managing director
Mr. XU Shu Biao (徐樹標)	45	executive Director and director of operations
Mr. LU Yili (盧已立)	36	executive Director and development director
Mr. SIT Hon Wing (薛漢榮)	34	chief financial officer
Mr. HUANG Rong Zhou (黃榮洲)	62	technology and research & development director
Mr. YU Zhen (俞臻)	35	chief strategy officer
Mr. ZHAO Ke Yin (趙克銀)	36	chief engineer

DIRECTORS AND SENIOR MANAGEMENT

Mr. SIT Hon Wing (薛漢榮), aged 34, is our chief financial officer. Mr. Sit joined us in 2008. He left us in April 2010 and served China Railsmedia Corporation Limited (Stock code: 745) as its financial controller and company secretary. Mr. Sit re-joined us in December 2010. From 1999 to 2002, he worked in the audit and assurance department of PricewaterhouseCoopers in Hong Kong. Mr. Sit has also served as the financial controller and company secretary of numerous listed companies in Hong Kong. From June 2006 to January 2008, Mr. Sit was the financial controller and company secretary of Sau San Tong Holdings Limited (stock code: 8200). From December 2002 to November 2005, he was the financial controller of Code Agriculture (Holdings) Limited (formerly known as China Chief Cable TV Group Limited (stock code: 8153)). Mr. Sit received a bachelor's degree in accountancy from the Hong Kong Polytechnic University in 1999 and he is a fellow member of both the Hong Kong Institute of Certified Public Accountants (HKICPA) and Association of Chartered Certified Accountants (ACCA).

Mr. HUANG Rong Zhou (黃榮洲), aged 62, is our technology and research & development director. Mr. Huang joined us in November 2010 and is currently responsible for the technological research, development and innovation for our Company. His duties include liaising with relevant technological research organizations, assisting in the Company's application for projects sponsored by the PRC Government and patent applications. In 1965, Mr. Huang graduated from Chengdu Institute of Meteorology (成都氣象學院). He attained the qualification of senior environmental engineer in November 1994 after passing the assessment of Guangdong Province Environmental Protection Engineer Technology Senior Workers Assessment Committee (廣東省環境保護工程技術人員高級職務評審委員會). He is a two-time leader of PRC national working groups investigating environmental protection research topics, for example, he is one of the authors of the research papers titled "The Study of Material Corrosion by Acid Rain in Guangzhou" (廣州地區酸雨對材料腐蝕研究) and "The Study of the Relationships between Acid Rain and Meteorological Conditions in Guangzhou" (廣州酸雨與氣象條件關係), which were awarded the Guangzhou environmental protection technology second honours (廣州市環境保護科技進步獎二等獎) for the year of 1991. In particular, Mr. Huang was the engineer of Guangzhou City Environmental Inspection Centre Station (廣州市環境監測中心站) from 1983 to 1992, as well as the assistant chief of Yuexiu District Environmental Protection Bureau (越秀區環境保護局) from 1997 to 2002. He was also engaged as a researcher in Yuexiu District Environmental Protection Bureau (越秀區環境保護局) in 2008. In addition, Mr. Huang was engaged by various associations to participate in roles that are related to environmental protection, including as a special contributor by Zhujiang Environment News (珠江環境報) in 1995, as the speaker of Professors of Systems, Technology, Communications and Operations Group (系統科技傳播行動教授團) by Guangzhou Yuexiu Bureau Of Education (廣州市越秀區教育局) in 1997, as the member of Yuexiu Science Report Group (越秀區科普報告團) by Yuexiu Association For Science and Technology (by 越秀區科學技術協會) in 2000, as Vice President by Yuexiu Fifth Administrative Committee of the Environmental Science Association (越秀區環境科學學會第五屆理事會) from April 2002 to April 2004 and the committee member of Yuexiu Thirteenth Standing Committee on Environment and Resources Protection of Urban and Rural Construction (越秀區第十三屆人大常委會城鄉建設環境與資源保護工作委員會) in 2003. He was the honorary president and technology advisor to Environmental Protection Association of Yuexiu district, Guangzhou (廣州市越秀區環保產業協會) from 2005 to 2008.

Mr. Yu Zhen (俞臻), aged 35, is our chief strategy officer. Mr. Yu joined us in February 2011, and is mainly responsible for formulating our Group's development strategy, dealing with financing related activities and investor relations. Mr. Yu has experience in investment and financing, especially in the areas of project financing, structured debt and investment in infrastructure and energy sectors. Prior to joining us, Mr. Yu had worked at various international financing institutions in Singapore and Hong Kong, including Bechtel International Inc, Standard Chartered Bank and FE Clean Energy Asia Pte Ltd. Mr. Yu graduated from the National University of Singapore with a bachelor's degree in business administration in 1999.

DIRECTORS AND SENIOR MANAGEMENT

Mr. ZHAO, Ke Yin (趙克銀), aged 36, is our chief engineer. Mr. Zhao joined us in March 2004 and is currently responsible for the daily technical supervision and implementation of our Group. Mr. Zhao is responsible for implementing national policies relating to technology and advanced technology management policies. Mr. Zhao has approximately seven years of experience in wastewater treatment, with a special focus on industrial wastewater treatment technology. He is also responsible for leading the implementation technical aspects of our Company's projects, devising work plans to ensure quality assurance and compliance with various industry technical standards, regulations and procedures. Mr. Zhao is our Company's key liaison with regulatory authorities. In 1998, Mr. Zhao obtained a diploma in environmental protection monitoring and implementation from Polytechnic University (瀋陽工業學院). He obtained a wastewater treatment training certificate issued by Guangdong Environmental Association Environmental Protection Vocational Training Centre (廣東環協環保職業技能培訓中心). He has also passed the environmental protection training accredited by Guangzhou Environmental Protection Promotion and Education Centre (廣州市環境保護宣傳教育中心) and Guangzhou Environmental Protection Bureau (廣州市環境保護局).

COMPANY SECRETARY

Mr. Sit Hon Wing is our company secretary for the purposes of Rule 8.17 of the Listing Rules. For details of his background, please refer to the section headed "Senior Management" above.

BOARD COMMITTEE

Audit Committee

We established an audit committee on June 14, 2011 with written terms of reference in compliance with Rule 3.21 of the Listing Rules and paragraph C3 of the Code on Corporate Governance Practices as set out in Appendix 14 of the Listing Rules. The audit committee consists of three independent non-executive Directors, Mr. Lam Ka Wai, Graham (being the chairman who has a professional qualification in accountancy), Mr. Liu Yung Chau and Mr. Xu Zhen Cheng. The primary duties of the audit committee are to assist the Board by providing an independent view of the effectiveness of the financial reporting process, internal control and risk management system of the Group, to oversee the audit process and to perform other duties and responsibilities as assigned by our Board.

Remuneration Committee

We established a remuneration committee on June 14, 2011 with written terms of reference in compliance with paragraph B1 of the Code on Corporate Governance Practices as set out in Appendix 14 of the Listing Rules. The remuneration committee consists of three members, two of whom are independent non-executive Directors, being Mr. Liu Yung Chau and Mr. Xu Zhen Cheng. The remuneration committee is chaired by Mr. Tsui, an executive Director. The primary duties of the remuneration committee include (but without limitation): (i) making recommendations to the Directors regarding our policy and structure for all remuneration of Directors and senior management and on the establishment of a formal and transparent procedure for developing policies concerning such remuneration; (ii) determining the terms of the specific remuneration package of our Directors and senior management; (iii) reviewing and approving performance-based remuneration by reference to corporate goals and objectives resolved by the Directors from time to time; and (iv) considering and approving the grant of share options to eligible participants pursuant to the Share Option Scheme.

During the Track Record Period, our remuneration policy for our Directors and senior management members was based on their experience, level of responsibility and general market

DIRECTORS AND SENIOR MANAGEMENT

conditions. Any discretionary bonus and other merit payments are linked to the profit performance of the Group and the individual performance of our Directors and senior management members. We intend to adopt the same remuneration policy after the Listing, subject to review by and the recommendations of our remuneration committee.

Nomination Committee

We established a nomination committee on June 14, 2011 with written terms of reference. The nomination committee consists of three members, namely Mr. Liu Yung Chau, Mr. Lam Ka Wai, Graham and Mr. Tsui, two of whom are our independent non-executive Directors. The chairman of the nomination committee is Mr. Liu Yung Chau. The primary function of the nomination committee is to make recommendations to our Board on the appointment of members of our Board.

EMPLOYEES

As of the Latest Practicable Date, we employed a total of 276 full-time employees. They can be categorized as follows according to their roles. The following table shows an approximate breakdown of our employees by function:

<u>Employee Type</u>	<u>Number of Employees</u>
General and administration (including public relations)	112
Finance	8
Quality control (including laboratory and R&D staff)	24
Procurement	4
Operation	106
Engineering and maintenance	<u>22</u>
Total	<u><u>276</u></u>

We believe that successful implementation of our growth and business strategies relies on a team of experienced, motivated and well-trained management and employees at all levels.

We enter into individual employment contracts with our employees to cover matters such as wages, benefits, and grounds for termination. We generally formulate our employees' remuneration package to include a salary, bonus and allowance elements. Our compensation programs are designed to remunerate our employees based on their performance, measured against other objective criteria we prescribe. We also provide our employees with welfare benefits in accordance with applicable regulations and our internal policies.

For the years ended December 31, 2008, 2009 and 2010 and the three months ended March 31, 2011, we incurred employee costs (including Directors) of HK\$4,174,000, HK\$4,562,000, HK\$7,004,000 and HK\$2,620,000, respectively.

As required by PRC regulations as well as compulsory rules of the PRC local governments, we participate in various social welfare schemes including pension, medical, maternity, work-related injury insurances and housing provident fund contributions. We are required under PRC law to make contributions to these schemes based on certain percentages of the salaries, bonuses and certain allowances of our employees in accordance with the respective regulatory requirement, up to a maximum amount specified by the relevant local governments from time to time. The total amount of contributions we made to such social welfare schemes for the years ended December 31, 2008, 2009 and 2010 and the three months ended March 31, 2011 was approximately HK\$293,000, HK\$371,000, HK\$503,000 and HK\$246,000, respectively.

DIRECTORS AND SENIOR MANAGEMENT

COMPENSATION OF DIRECTORS AND SENIOR MANAGEMENT

Our executive Directors, who are also our employees, receive, in their capacity as our employees, compensation in the form of salary and cash bonus.

The aggregate amount of remuneration including fees, salaries, contributions to pension schemes, housing allowances and other allowances and benefits in kind and discretionary bonuses which were paid to our Directors for the years ended December 31, 2008, 2009 and 2010 and the three months ended March 31, 2011 was approximately HK\$595,000, HK\$541,000, HK\$620,000 and HK\$154,000, respectively.

The aggregate amount of remuneration including fees, salaries, contributions to pension schemes, housing allowances and other allowances and benefits in kind and discretionary bonuses which were paid by our Group to our five highest paid individuals for the years ended December 31, 2008, 2009 and 2010 and the three months ended March 31, 2011 was approximately HK\$1,398,000, HK\$1,216,000, HK\$1,069,000 and HK\$301,000, respectively.

No remuneration was paid by the Group to the Directors or the five highest paid individuals as an inducement to join or upon joining the Group or as a compensation for loss of office in respect of the years ended December 31, 2008, 2009 and 2010 and the three months ended March 31, 2011. Further, none of our Directors waived any remuneration during the same period.

Under our arrangements currently in force, the aggregate remuneration (including fees, salaries, contributions to pension schemes, housing allowances and other allowances and benefits in kind) of our Directors for the year ending December 31, 2011 is estimated to be approximately HK\$1,245,000.

SHARE OPTION SCHEME

We have conditionally adopted the Share Option Scheme. For details of the Share Option Scheme, please refer to the section headed “Statutory and General Information — Other Information — Share Option Scheme” in Appendix VI to this prospectus.

COMPLIANCE ADVISOR

We have appointed Platinum Securities Company Limited as our compliance advisor pursuant to Rule 3A.19 of the Listing Rules. Pursuant to Rule 3A.23 of the Listing Rules, the compliance advisor will advise us in the following circumstances:

- (a) before the publication of any regulatory announcement, circular or financial report;
- (b) where a transaction, which might be a notifiable or connected transaction, is contemplated, including share issues and share repurchases;
- (c) where we propose to use the net proceeds of the Global Offering in a manner different from that detailed in this prospectus or where our business activities, developments or results deviate from any forecast, estimate or other information in this prospectus; and
- (d) where the Stock Exchange makes an inquiry of us regarding unusual movements in the price or trading volume of our Shares.

The terms of the appointment shall commence on the Listing Date and end on the date which we distribute our annual report of our financial results for the first full financial year commencing after the Listing Date and such appointment may be subject to extension by mutual agreement.

WAIVERS FROM STRICT COMPLIANCE WITH THE LISTING RULES

WAIVER FROM STRICT COMPLIANCE WITH RULE 8.12 OF THE LISTING RULES RELATING TO MANAGEMENT PRESENCE IN HONG KONG

According to Rule 8.12 of the Listing Rules, an issuer must have a sufficient management presence in Hong Kong and in normal circumstances, at least two of the issuer's executive directors must be ordinarily resident in Hong Kong.

Our core business and operations are substantially based in the PRC. It would be practically difficult and commercially unnecessary for us to relocate our executive directors to Hong Kong. Therefore, we have applied to the Stock Exchange for, and the Stock Exchange has granted, a waiver from compliance with Rule 8.12 of the Listing Rules on the following conditions:

- (1) We have appointed and will continue to maintain two authorized representatives pursuant to Rule 3.05 of the Listing Rules, who will act as our principal channel of communication with the Stock Exchange and ensure that they comply with the Listing Rules at all times. The two authorized representatives appointed are Mr. Tsui and Mr. Lu Yili, both of whom are our executive Directors. Mr. Tsui holds a valid Hong Kong permanent identity card, and both will be available to meet with the Stock Exchange in Hong Kong within a reasonable time frame upon the request of the Stock Exchange and will be readily contactable by telephone, facsimile and email. Each of the two authorized representatives has been authorized to communicate on our behalf with the Stock Exchange. We will also appoint Mr. Sit Hon Wing, who is ordinarily resident in Hong Kong, company secretary of the Company, as an alternate authorized representative.
- (2) Each of our authorized representatives (including the alternate) has means to contact all of our Directors (including the independent non-executive Directors) promptly at all times as and when the Stock Exchange wishes to contact the Directors for any matters. To enhance communication between the Stock Exchange, the authorized representatives and our Directors, we will implement a policy that (a) each Director will have to provide his/her mobile telephone number, fax number and email address to the authorized representatives; (b) in the event that a Director expects to travel, he/she will endeavor to provide the telephone number of the place of his/her accommodation to the authorized representatives or maintain an open line of communication via his/her mobile telephone; and (c) all our Directors will provide their respective mobile telephone numbers, office telephone numbers, fax numbers and email addresses to the Stock Exchange.
- (3) All our Directors have confirmed that they possess or can apply for valid travel documents to visit Hong Kong for business purposes and would be able to come to Hong Kong and meet with the Stock Exchange within a reasonable period.
- (4) We have appointed a compliance advisor, pursuant to Rule 3A.19 of the Listing Rules, which will have access at all times to the authorized representatives, our Directors and the senior management of the Company, and such compliance advisor will act as an additional channel of communication between the Stock Exchange and us for the period commencing on the Listing Date and ending on the date on which we distribute our annual report for the first full year after the Listing Date in accordance with Rule 13.46 of the Listing Rules.
- (5) Meetings between the Stock Exchange and our Directors could be arranged through the authorized representatives or the compliance advisor, or directly with our Directors within a reasonable time frame. We will inform the Stock Exchange as soon as practicable in respect of any change in the authorized representatives and/or the compliance advisor in accordance with the Listing Rules.

WAIVERS FROM STRICT COMPLIANCE WITH THE LISTING RULES

CHAPTER 14A OF THE LISTING RULES

The Company has applied to the Stock Exchange for, and the Stock Exchange has agreed to grant, a waiver from strict compliance with the requirements under Chapter 14A of the Listing Rules for certain non-exempt continuing connected transactions. For details, please refer to the section headed “Connected Transactions” in this prospectus.

SHARE CAPITAL

The following is a description of the authorized and issued share capital of our Company in issue and to be issued as fully paid or credited as fully paid immediately before and following the completion of the Global Offering and the Capitalization Issue (assuming the Over-allotment Option is not exercised):

		<i>HK\$</i>
Authorized share capital:		
4,000,000,000	Shares of HK\$0.10 each	400,000,000
Issued and to be issued, fully paid or credited as fully paid:		
1,000,000	Shares in issue as of the date of this prospectus	100,000
899,000,000	Shares to be issued pursuant to the Capitalization Issue	89,900,000
264,000,000	Shares to be issued pursuant to the Global Offering	26,400,000
1,164,000,000	Total	116,400,000

ASSUMPTIONS

The above table assumes that the Global Offering becomes unconditional and the issue of Shares pursuant to the Global Offering and Capitalization Issue are made. It takes no account of any Shares which may be allotted and issued pursuant to the exercise of the Over-allotment Option or pursuant to the exercise of the options which may be granted under the Share Option Scheme or any Shares which may be issued or repurchased by us pursuant to the general mandates granted to our Directors to issue or repurchase Shares as described below.

RANKING

The Offer Shares will rank *pari passu* in all respects with all Shares in issue or to be issued as mentioned in this prospectus and, in particular, will qualify for all dividends or other distributions declared, paid or made on the Shares after the date of this prospectus save for entitlements to the Capitalization Issue.

GENERAL MANDATE TO ALLOT AND ISSUE NEW SHARES

Subject to the Global Offering becoming unconditional, Our Directors have been granted a general mandate to allot, issue and deal with Shares in the share capital of our Company with a total nominal value of not more than the sum of:

- (a) 20% of the total nominal amount of the share capital of our Company in issue immediately following the completion of the Global Offering and the Capitalization Issue (excluding Shares which may be allotted and issued pursuant to the exercise of the Over-allotment Option or any options which may be granted under the Share Option Scheme); and
- (b) the total amount of share capital of our Company repurchased by our Company (if any) pursuant to the general mandate to repurchase Shares granted to our Directors referred to below.

Our Directors may, in addition to the Shares which they are authorized to issue under this general mandate, allot, issue or deal with Shares under a rights issue, scrip dividend scheme or similar arrangement, or on the exercise of any option granted or which may be granted under the Share Option Scheme.

SHARE CAPITAL

This mandate will expire:

- at the conclusion of our Company's next annual general meeting; or
 - at the expiry of the period within which our Company is required by any applicable laws or its articles of association to hold its next annual general meeting; or
 - when varied or revoked by an ordinary resolution of the Shareholders in general meeting.
- whichever is the earliest.

Further information on this general mandate is set out in the section headed "Statutory and General Information — Further Information About Our Company and Our Subsidiaries — Resolutions in writing of the shareholders of our company passed on June 14, 2011" in Appendix VI to this prospectus.

GENERAL MANDATE TO REPURCHASE SHARES

Subject to the Global Offering becoming unconditional, our Directors have been granted a general mandate to exercise all the powers of our Company to repurchase Shares with a total nominal amount of not more than 10% of the total nominal amount of the share capital of our Company in issue immediately following the completion of the Global Offering and the Capitalization Issue (excluding Shares which may be allotted and issued pursuant to the exercise of the Over-allotment Option or any options which may be granted under the Share Option Scheme).

This mandate only relates to repurchases made on the Stock Exchange or any other stock exchange on which the Shares are listed (and which is recognized by the SFC and the Stock Exchange for this purpose), and which are in accordance with the Listing Rules. A summary of the relevant Listing Rules is set out in the section headed "Statutory and General Information — Further Information About Our Company and Our Subsidiaries — Repurchase of our Shares" in Appendix VI to this prospectus.

This mandate will expire:

- at the conclusion of our Company's next annual general meeting; or
 - at the expiry of the period within which our Company is required by any applicable laws or its articles of association to hold its next annual general meeting; or
 - when varied or revoked by an ordinary resolution of the Shareholders in general meeting.
- whichever is the earliest.

Further information on this general mandate is set out in the section headed "Statutory and General Information — Further Information About Our Company and Our Subsidiaries — Resolutions in writing of the shareholders of our company passed on June 14, 2011" in Appendix VI to this prospectus.

SHARE OPTION SCHEME

On June 14, 2011, we conditionally adopted the Share Option Scheme. Summaries of the principal terms of the Share Option Scheme are set out in the section headed "Statutory and General Information — Other Information — Share Option Scheme" in Appendix VI to this prospectus.

SUBSTANTIAL SHAREHOLDERS

So far as our Directors are aware, the following persons will, immediately following the completion of the Global Offering and the Capitalization Issue taking no account of any Shares which may be issued pursuant to the exercise of the Over-allotment Option or Shares which may be issued upon the exercise of any options granted under the Share Option Scheme, have beneficial interests or short positions in our Shares or underlying Shares which would be required to be disclosed to us under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who is, directly or indirectly, interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of our Group:

Name of Shareholder	Nature of Interest	Number of Shares ⁽¹⁾	Approximate percentage of interest in our Company immediately following the completion of the Global Offering and the Capitalization Issue
Mr. Tsui	Interest in controlled corporation	774,000,000	66.49%
Keen Vast	Beneficial owner	774,000,000	66.49%

(1) The letter “L” denotes the person’s long position in the Shares.

If the Over-allotment Option is fully exercised, the beneficial interests of each of Mr. Tsui, Keen Vast will be approximately 65.56% and 65.56%, respectively. Mr. Tsui, the largest shareholder of the Company, was raised and has lived in the PRC for a substantial period of time. Mr. Tsui has not been a full-time government official of the PRC, nor has Mr. Tsui been a full-time employee of a state- or government-owned or operated entity for a substantial period of time.

Except as disclosed in this prospectus, our Directors are not aware of any person who will, immediately following the completion of the Global Offering and the Capitalization Issue (assuming the Over-allotment Option is not exercised and no Shares are to be issued upon the exercise of any options granted under the Share Option Scheme, have beneficial interests or short positions in any Shares or underlying Shares, which would be required to be disclosed to us under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who is, directly or indirectly interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of our Group. Our Directors are not aware of any arrangement which may at a subsequent date result in a change of control of our Company.

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You should read the following discussion and analysis in conjunction with our financial information as of and for the years ended December 31, 2008, 2009 and 2010 and the three months ended March 31, 2011, together with the notes thereto included as Appendix I to this prospectus. Our financial information is prepared in conformity with HKFRS, which may differ in certain material aspects from generally accepted accounting principles in other jurisdictions, including the United States. You should read the whole of the accountants' report included as Appendix I to this prospectus and not rely merely on the information contained in this section.

The following discussion contains certain forward-looking statements that involve risks and uncertainties. Our actual results reported in future periods could differ materially from those discussed below. Factors that could cause or contribute to such differences include those discussed in the sections headed "Forward-Looking Statements," "Risk Factors" and "Business" and elsewhere in this prospectus.

Unless the context otherwise requires, for the purpose of this section, references to "2008", "2009" and "2010" refer to our financial years ended December 31, 2008, 2009 and 2010, respectively. Unless the context otherwise requires, financial information described in this section is described on a combined basis.

OVERVIEW

We are a provider of one-stop centralized and customized wastewater treatment and industrial water supply services in China focusing on industrial wastewater treatment. Our services cover the whole value chain of wastewater treatment and industrial water supply services industry, from design planning, procurement and construction, to operations and maintenance of the wastewater treatment and water supply facilities. In 2003, we commenced construction of our flagship project, Guangzhou Xinzhou Industrial Park Treatment Facility, at Guangzhou Xinzhou Industrial Park. Such facility was one of the five industrial wastewater treatment projects in Guangdong province that received the "2007 Key National Model Project for Practical Technology in Environmental Protection" (2007年國家重點環保實用技術示範工程) award granted by the China Environmental Protection Association (中國環境保護產業協會). According to the Ernst & Young Report, this industrial park is one of the leading textile and dyeing industrial parks in China in terms of wastewater treatment capacity. It has also been recognized by the Guangdong Province Environmental Protection Association as a leading industrial park with the largest centralized wastewater treatment facilities in terms of treatment capacity for the textile industry in the province.

Our principal business is the provision of industrial wastewater treatment and industrial water supply services. We also take on certain projects to provide municipal wastewater treatment services if we consider such projects to be beneficial to us, taking into account factors such as profit margins and development of relationships with local governments. In general industrial wastewater treatment and industrial water supply services have a higher gross profit margin than municipal wastewater treatment services, according to the Ernst & Young Report. Some of our treatment facilities can treat a mixture of industrial and municipal wastewater.

We focus on developing centralized and cost-efficient wastewater treatment facilities for industrial parks or clusters. Many local governments are increasingly promoting the large-scale development of selected industries in the form of specialized industrial parks or clusters. We expect this trend to continue and intend to capitalize on the anticipated industrial growth by actively seeking business opportunities in and further expanding our operations to other parts of China such as Sichuan, Hubei, Jiangxi and Guangxi provinces. We believe our strong track record in providing centralized wastewater treatment and industrial water supply services positions us well to capitalize on the continued industrial growth in China.

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We have historically focused on providing treatment services to the textile industry. We are headquartered in Zengcheng city, Guangdong province, which produced more than 60% of the denim apparel in China in 2008 according to the Urban Planning Bureau of Zengcheng city, Guangdong province. In 2003, we commenced construction of our flagship project, the Guangzhou Xinzhou Industrial Park Treatment Facility, and as of December 31, 2010, we had provided wastewater treatment services to 26 companies in the textile industry in Zengcheng city, Guangdong province. We have expanded our business and operations considerably over the past few years. We currently have three wastewater treatment plants and one industrial water supply plant in operation located in Guangdong province and one wastewater treatment plant in operation located in Hunan province. These facilities have an aggregate constructed capacity of 215,000 m³ per day for wastewater treatment and 150,000 m³ per day for industrial water supply. For the month ended December 31, 2010, these facilities had an aggregate daily average utilized capacity of 184,796 m³ per day for wastewater treatment and 94,542 m³ per day for industrial water supply. We recently commenced operations at our Huaihua Tianyuan Treatment Facility servicing nine companies. This project signifies our expansion of wastewater treatment services from the textile industry to other industries, such as the pulp and paper-making industry as well as the food and beverage industry. We expect to leverage our successful experience in providing centralized wastewater treatment services in the development of our new projects.

Our total turnover had grown rapidly during the Track Record Period from HK\$81.6 million in 2008 to HK\$137.8 million in 2009 and to HK\$361.4 million in 2010, representing a CAGR of 110.5%. Our total turnover was HK\$71.3 million for the three months ended March 31, 2011. Our profit attributable to equity holders of our Company also grew rapidly during the Track Record Period, from HK\$36.8 million in 2008 to HK\$74.2 million in 2009 and to HK\$120.9 million in 2010, representing a CAGR of 81.3%. Our profit attributable to equity holders of our Company was HK\$33.6 million for the three months ended March 31, 2011. Our overall high gross profit margin during the Track Record Period was primarily attributable to economies of scale from the provision of centralized wastewater treatment services to multiple customers and the increase in the unit price charged for wastewater treatment services by Guangzhou Xinzhou Industrial Park Treatment Facility. For more details, please refer to the section headed “Financial Information — Description of Selected Income Statement Line Items — Gross profit and gross profit margin.”

Core Business — Wastewater Treatment and Industrial Water Supply Services

We focus on providing integrated, customized, centralized and large-scale industrial wastewater treatment and water supply services in a cost-effective and timely manner. Our services encompass the whole value chain of the wastewater treatment and industrial water supply services industry, which covers the processes of project selection, project design, execution and project management, procurement and construction, as well as ongoing operation and maintenance of wastewater treatment and water supply facilities.

Wastewater Treatment — BOO and BOT Project Models

We use either the Build-Own-Operate (“BOO”) or Build-Operate-Transfer (“BOT”) project model to provide our wastewater treatment services. The differences between our BOO and BOT project models are summarized below. For more details, please refer to the sections headed “Industry Overview — China’s Wastewater Treatment Industry — Wastewater Treatment Operating Modes” and “Business — Our Project Management Process.”

For our BOO projects, the relevant project company builds, owns and operates the facility and retains all of the surplus operating revenue. The project company is responsible for financing the project and relevant land acquisition costs, and designing, constructing, operating and managing the project. BOO projects are more commonly used for industrial wastewater treatment, including construction projects in industrial parks where the local government may not have sufficient capital to finance treatment facilities. The government does not generally provide direct funding for BOO

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projects, but may offer other financial incentives such as tax reductions or tax holidays. We typically finance our BOO projects through a combination of our own funds and bank loans secured by the project company's assets. We cooperate with the local government in the development of the relevant industrial park, starting from the master-planning process, followed by the design, construction and commencement of operation of our facilities. We further collaborate with the local government in attracting customers to join the industrial parks. BOO projects can generally earn a higher profit as, unlike our BOT projects, they are not subject to fixed government tariffs, and we thus have greater flexibility in formulating pricing policy and passing increased costs to our customers. The relevant local government will recommend a maximum price for each BOO project, and a project company can apply to the relevant government authority to increase this recommended maximum price. In general, the return on equity for BOO projects is on average higher than that for BOT projects. For our BOO projects, we rely on certain significant customers, particularly in the textile industry. We intend to increase our return on investment for these projects by expanding our operations and engaging more customers. In general, growth in BOO wastewater treatment projects is primarily driven by industrialization as well as government policy on reducing industrial pollution.

For our BOT projects, the relevant government or industry player grants the operational right to the relevant project company, which builds and operates the facility for a specified period pursuant to a concession agreement, and transfers ownership of the project facility to the government or other specified party at the end of the specified concession period, generally for nil consideration. The project company is responsible for financing, designing, constructing, operating and managing the project for the duration of this specified concession period. BOT projects can generally be adopted in both municipal and industrial wastewater treatment projects. However, we currently mainly use the BOT project model primarily to provide municipal wastewater treatment services. BOT projects are acquired by means of a government-mandated open tender process, and are routinely monitored by the authorities in charge of supervising municipal public utilities. We are required to transfer the treatment facilities to the relevant local governments for nil consideration upon the expiry of the concession period. Further, we are generally required to carry out comprehensive repair works prior to this transfer, and in some cases provide a warranty period of 12 months following the transfer. In general, BOT project companies receive a stable return on investment during the concession period to cover initial costs as well as operation and maintenance fees by receiving periodic payments from the government or industry player, as applicable, for wastewater treatment services. Unlike BOO projects for which wastewater treatment prices may be freely negotiated subject to a government-recommended maximum price, tariffs for BOT projects are determined by a pricing adjustment formula consisting of factors such as interest rates and utility prices. These cost factors are generally reviewed every two or three years or as designated in the concession agreement. If costs have exceeded the designated range, the project company has the right to request the payment to increase correspondingly subject to the government's approval. Due to this limitation on pricing flexibility, BOT projects in general earn lower profit margins and return on investment than BOO projects. In general, growth in BOT wastewater treatment projects is driven by urbanization and the government's increasing promotion of environmental protection policies.

Wastewater Treatment — BOO and BOT Project Accounting Treatment

The accounting treatment of a BOT project is different from that of a BOO project. The mix of BOO and BOT project models will have an impact on our turnover and cost recognition, cash flows and gross profit margin during the relevant periods. The differences in the accounting treatment of our BOO model and BOT model are summarized below. For more details, please refer to the sections headed "Financial Information — Description of Selected Income Statement Line Items — Turnover" and "Financial Information — Factors Affecting Our Results of Operations — Project Model Mix."

For our BOO projects, we recognize turnover when wastewater treatment services are rendered during the operational phase. We record the amount of turnover recognized from the provision of wastewater treatment services in our combined income statement. Outsourcing costs related to the construction of our facilities, as well as property, plant and equipment used in providing such services

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are capitalized as fixed assets. Depreciation of such property, plant and equipment is recognized in profit or loss on a straight-line basis over the estimated useful lives less their estimated residual value. Unlike BOT projects, the accounting treatment for BOO projects does not involve any estimation or recognition of construction turnover.

Our BOT projects are considered as service concession arrangements under HK (IFRIC) 12. As such, we recognize turnover from a BOT project during both the construction phase and the operational phase, while we generally only receive payments for our services rendered during the operational phase. Turnover for the construction phase expected to be generated from a BOT project is estimated and valued at the time the relevant contracts for the project are entered into. During the construction phase, we recognize turnover for construction services under our BOT projects on the basis of the percentage of completion. Turnover recognized during the operational phase accounts for the remainder of the total turnover from such BOT projects. For more details, please refer to the sections headed “Financial Information — Description of Selected Income Statement Line Items — Turnover” and “Financial Information — Factors Affecting Our Results of Operations — Project Model Mix.”

For our BOO projects, we recognize turnover when we provide wastewater treatment services under the operational phase and we normally expect to receive the cash flow matching the recognized turnover within the credit period granted to our customers. We generally do not receive any payment during the construction phase of our BOT projects. The actual cash inflow for our construction turnover from our BOT projects will only be received in the form of cash tariff payments during the operational phase of the relevant BOT projects, which can be up to 30 years. If we undertake more BOT projects in the future, this will result in a significant cash flow mismatch as we may not have the cash inflow matching the turnover recognized during the construction phase of our BOT projects.

Municipal Waste-to-Energy Project

Pursuant to a joint venture memorandum of understanding (the “MOU”) entered into between Guangzhou To Kee and Guangri Group dated December 18, 2010, both parties will jointly establish a project company in which each party will hold a 50% interest in relation to a waste-to-energy project. Guangzhou To Kee will cooperate with Guangri Group in the daily management of the project company as well as the construction and operation of the project in Zengcheng city, Guangdong province. Guangri Group will be responsible to provide the technology and expertise required for the waste-to-energy project. Guangzhou To Kee is responsible for obtaining the relevant local approvals and construction permits for the project, as well as handling land acquisitions and public relations matters in Zengcheng city, while Guangri Group is responsible for obtaining the relevant municipal and provincial level approvals, construction permits and other related technical matters in Guangdong province and Guangzhou city. On January 5, 2011, Guangzhou Xintao entered into a separate agreement with Guangzhou To Kee, pursuant to which Guangzhou To Kee transferred all the rights and obligations of the memorandum of understanding to Guangzhou Xintao. The Company’s involvement in the waste-to-energy project has therefore moved beyond a preliminary discussion stage and the Company has contractual rights and obligations in relation to the development of the waste-to-energy project. Such transfer of rights and obligations did not involve any transfer fees or taxes and had been expressly acknowledged by Guangri Group. The first phase of the municipal waste-to-energy project is expected to have the capacity to treat 2,000 tonnes of municipal waste per day. The estimated investment amount is approximately RMB800.0 million, borne in equal proportions by the joint venture parties, of which we expect to fund RMB120.0 million from our own resources, in line with our intention to fund 30% of our total investment amounts from our own resources. We expect the project to commence operations in 2013. The main source of revenue for this project will be from the provision of waste incineration services (which in turn generates electricity) and other ancillary services. According to our PRC legal counsel, the MOU, as well as the abovementioned agreement entered into in relation to the waste-to-energy project, is legally binding and enforceable under the PRC law.

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We intend to fund the waste-to-energy project using proceeds from the Global Offering and bank borrowings. Since the municipal waste-to-energy project is intended to bring about environmental benefits, the project has received strong support from the local government, which we believe will facilitate our ability in obtaining the necessary funding from banks. Accordingly, our Directors are of the view that we have sufficient resources to develop the municipal waste-to-energy project. Pursuant to the MOU, as Guangri Group has the expertise in operating a waste incineration and power generation plant and also possesses advanced waste incineration technology and equipment, Guangri Group will be responsible to provide the technology and expertise required for the waste-to-energy project. We intend to leverage the expertise and experience that Guangri Group has in the area of waste incineration and at the same time, build up our experience in the management of this project. Our Directors are of the view that through close cooperation with Guangri Group, we have the necessary managerial expertise to develop the municipal waste-to-energy project. For more details, please refer to the section headed “Business — Our Waste-to-Energy Project.”

Sludge Treatment

We currently treat sludge produced as a by-product of our wastewater treatment through a comprehensive treatment process, and give the post-treated sludge to a licensed third party for legitimate industrial use or disposal. Currently we do not sell the post-treated sludge products. Our solar industrial sludge drying system used in the sludge treatment process mainly reduces the water content in the sludge. Post-treated sludge may be used as a component of fuel substitute by blending with additional fuels such as coal for use in certain manufacturing processes.

Our sludge treatment facilities are located in Guangzhou Xintao Wastewater Treatment Facility. The planned design capacity of sludge treatment for third parties will be approximately 90 tonnes per day for post-treated sludge having water content of no more than 45%. We intend to use the solar sludge drying technology in the sludge treatment project. Additional facilities and equipment, such as post-treated sludge handling units and distribution pipes, will be required for our expansion in sludge treatment for third parties. The estimated investment amount is approximately RMB25.8 million. We plan to complete the construction of the entire sludge drying system within 2011 and thereafter apply for the Sludge Treatment Permit in accordance with the requirements of the Guangdong Province Solid Waste Treatment Administrative Licensing Implementation Measures (廣東省嚴控廢物處理行政許可實施辦法). Upon receiving such permit, we may provide sludge treatment services to licensed third parties. For more details, please refer to the section headed “Business — Our Sludge Treatment Process.”

Heating Services

As a complementary business, we intend to also provide heating services to our customers in Guangzhou Xinzhou Industrial Park. The provision of central heating services was planned to be a part of Guangzhou Xinzhou Industrial Park at the outset, and was delayed because the conditions within the park necessary for such implementation were not in place at the time. As such, the individual facilities within the park had installed small-scale boilers to meet their respective heating needs. We are pursuing this project because conditions within the park have now made it more feasible for central heating services to be provided within the park, and the relevant environmental protection bureau has requested that factories replace small-scale boilers with a central heating service as soon as possible. Pursuant to an agreement and a supplementary agreement for the provision of heating services entered into on January 26, 2011 between Guangzhou Xintao and Guangzhou Development Xintang Heat Co. Ltd (“Xintang Heat”), we intend to procure heating from Guangzhou Development Xintang Heat Co. Ltd., which provides heating services to customers outside the industrial park, but does not currently provide any such service within the park. We in turn provide heating services to our customers in Guangzhou Xinzhou Industrial Park. Guangzhou Xintao has already applied to and received approval from the relevant authorities to expand its scope of business to include the provision of central heating services. Our PRC legal counsel has advised us that no additional special permits or licenses are required for Guangzhou Xintao to provide central heating services in Guangzhou Xinzhou Industrial Park. We believe that, by providing central heating services in Guangzhou Xinzhou Industrial Park,

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we can benefit both the environment and the companies within the park, including Guangzhou Xintao. The estimated investment amount is approximately RMB15.0 million and we expect to commence providing such heating services in the second half of 2011. The main source of revenue will be payments from customers for the provision of heating services. For more details, please refer to the section headed “Business — Our Projects — Guangzhou Xinzhou Environmental Protection Industrial Park Treatment Facility.”

While we intend to expand our operations into other waste treatment areas, the provision of wastewater treatment services will continue to be our core business in the future. Please refer to the section headed “Risk Factors” for more information on the risks associated with our business and future development.

BASIS OF PRESENTATION

Our Company was incorporated in the Cayman Islands as a company with limited liability on November 30, 2010. Pursuant to the Reorganization, our Company became the holding company of the companies now comprising our Group as of the same date. The Reorganization has been undertaken in preparation for the Global Offering. For details of the Reorganization, please refer to the section headed “History and Reorganization” in this prospectus.

Merger accounting has been applied in the accounting of the Reorganization. The combined income statements, the combined statements of comprehensive income, the combined statements of changes in equity and the combined cash flow statements of the Group include the results of operations of the Company and its subsidiaries for the relevant period (or where the Company and its subsidiaries were incorporated/established at a date later than January 1, 2008, for the period from the date of incorporation/establishment to March 31, 2011) as if the Reorganization was completed at the beginning of the relevant period. The combined balance sheets of the Group as of December 31, 2008, 2009 and 2010 and March 31, 2011 have been prepared to present the state of affairs of the Company and its subsidiaries as of those dates as if the Reorganization was completed at the beginning of the relevant period. All material intra-group transactions and balances have been eliminated on combination.

Our financial information as of and for the years ended December 31, 2008, 2009 and 2010 and the three months ended March 31, 2011 was audited by our reporting accountants. Our financial information has been prepared in accordance with HKFRS issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) and the disclosure requirements of the Companies Ordinance. Pursuant to HKFRS, our financial information has been prepared under the historical cost basis except that financial assets which are measured at fair value throughout the Track Record Period. Our financial information is presented in Hong Kong dollars.

FACTORS AFFECTING OUR RESULTS OF OPERATIONS

Our business, results of operations and financial condition have been, and will continue to be, affected by a number of factors, many of which are beyond our control, including:

Demand for Our Wastewater Treatment and Industrial Water Supply Services in China

Our results of operations are affected by the level of demand for wastewater treatment and industrial water supply services in China. Such demand in China has been driven by various factors, including, among others, changing economic conditions, industrial development in China, macroeconomic policies of the PRC Government and the local governments, regulatory requirements pertaining to our industry as well as increasing focus of the PRC Government and the local governments on environment protection. We believe these factors will continue to have an impact on the demand for wastewater treatment and industrial water supply services in China and hence, our business and results of operations.

Demand for wastewater treatment and industrial water supply services will depend, to a large extent, upon the economies of China and its principal export markets. Slowing economic growth or

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a recession in China or in its principal export markets could have a material and adverse impact on our business and results of operations. Our business will be influenced by the development of the industries that our customers are engaged in and their business growth, which is directly linked to the demand for our services. During periods of slowing economic growth or recession, these industries may experience significant cutbacks in production which could substantially decrease the discharge of wastewater or the use of industrial water in the manufacturing process, which in turn could adversely affect demand for our services. Our results of operations are also affected by local market conditions in the regions where we operate or to which we plan to expand.

For our projects that involve servicing manufacturing companies in designated industrial parks, our results of operations are influenced by the development of the industrial parks that we are servicing or to which we plan to expand, which in turn is affected by the extent of governmental support and participation in such development. In an effort to enhance the economic development in their respective regions, many local governments have promoted the development of selected industries in designated areas in a large-scale manner through the development of specialized industrial parks. However, the development of the industrial parks may not turn out to be successful and they may fail to attract suitable manufacturers to achieve the desired occupancy level or economies of scale. We expect the trend of local governments promoting industrial development in their respective regions to continue and intend to capitalize on such anticipated industrial growth. Accordingly, our business and results of operations will be influenced by the development of the industrial parks or clusters in the industries and geographical markets that we are servicing or to which we plan to expand.

Changes in Government Policies and Regulations Relating to Wastewater Treatment and Industrial Water Supply Services Industry

We are engaged in an industry where regulatory standards play a critical role in influencing the demand for our services. Our operations are sensitive to changes in the PRC Government's laws and regulations relating to the wastewater treatment and industrial water supply services industry, or changes in the implementation of such laws and regulations. Any changes in legislative, regulatory or industrial requirements have an impact on our ability to provide our wastewater treatment and industrial water supply services.

In recent years, the PRC Government has been increasingly focusing on environmental protection. We are currently in a favorable regulatory environment where the PRC Government encourages the development of the environmental protection industry and has stated its intention to increase investment on the environmental protection industry going forward. We believe that this anticipated increase in government spending on the wastewater treatment and industrial water supply infrastructure will further increase the demand for our services. In addition, environmental regulatory requirements in China are becoming increasingly stringent as the PRC Government sets stricter water quality standards for our industry. Accordingly, companies that fall below the required standard or those that illegally discharge wastewater are subject to substantial fines or, in extreme cases, required to close their facilities. Although these stricter regulatory requirements may lead to higher compliance costs, we believe they present new business opportunities for us due to our ability to provide integrated wastewater treatment and industrial water supply solutions to our customers that meet the relevant environmental regulatory requirements. We believe that we are well positioned to respond to the increasingly stringent environmental protection policies in China. Changes in the governmental policies over environmental protection will continue to have an impact on the outlook of our business and results of operations.

Currently, our business and operations in China require permits, licenses and certificates from the relevant government authorities. From time to time, changes in the rules and regulations or the implementation thereof may require us to obtain additional approvals and licenses from the PRC authorities for the conduct of our operations in China. In such event, we may need to incur additional expenses in order to comply with such requirements. In addition, some of these licenses, permits and

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certificates are subject to periodic reviews and renewals by the governmental authorities and the standards of compliance required may from time to time be subject to changes without advance notice. Any changes in the existing government policies and regulations relating to wastewater treatment and industrial water supply services industry may result in our failure to obtain or maintain such permits, licenses and certificates, which could have a negative impact on our financial condition and results of operations.

Project Model Mix

We use either the BOO or BOT project model to provide industrial wastewater treatment services in a large-scale and centralized manner to customers in industrial parks or clusters. We generally use the BOT project model to provide municipal wastewater treatment services. The mix of BOO and BOT project models will have an impact on our turnover and cost recognition, cash flows and gross profit margin during the relevant periods.

The accounting treatment for a BOT project is different from that of a BOO project. The difference affects our turnover and cost recognition, cash flows and profitability during the relevant periods. Our BOT projects are considered as service concession arrangements under HK (IFRIC) 12. As such, we recognize turnover from a BOT project during both the construction phase and the operational phase. We recognize the turnover during construction phase based on the percentage of completion of the construction. The total turnover from construction services of each BOT project during the Track Record Period is valued by DTZ based on the market value of similar construction services. When the outcome of construction services pursuant to a service concession arrangement can be estimated reliably, contract revenue and expenses are recognized in profit or loss in proportion to the percentage of completion of the construction. We engaged an independent property valuer, DTZ, to value the construction services during the Track Record Period that form a basis for us to estimate the total turnover for the construction phase. During the Track Record Period, in determining the stage of completion for each relevant reporting period, we used the actual construction cost incurred during the period over the total actual construction cost during the entire construction phase. Going forward, we need to estimate the amount of construction costs based on our assessment of, among other things, the market conditions and the costs of raw materials and equipment and other operating costs. Accordingly, unlike our BOO projects, we recognize turnover for construction services under our BOT projects on the basis of the percentage of completion. If we undertake more BOT projects in the future, due to the recognition of construction turnover, we will recognize more turnover during the construction phase of these projects, with the operational phase accounting for the remainder of the total turnover from such BOT projects.

We generally do not receive any payment from the local government during the construction phase of our BOT projects. The actual cash inflow for our construction turnover from our BOT projects will only be received in the form of cash tariff payments during the operational phase of the relevant BOT projects, which can be up to 30 years. For our BOO projects, we recognize turnover when we provide wastewater treatment services under the operational phase and we normally expect to receive the cash flow matching the recognized turnover within the credit period granted to our customers. Should we undertake more BOT projects in the future, it will result in a significant cash flow mismatch as we may not have the cash inflow matching the turnover recognized during the construction phase of our BOT projects.

We intend to continue using both BOO and BOT project models in our business. The relative turnover contribution by our projects will depend on the markets in which we operate and to which we plan to expand, whose growth will depend on, among other things, the level of governmental support and planning as well as the characteristics of the industrial development in the areas.

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Operating costs and governmental pricing policies regarding our services

We are exposed to fluctuations in the prices of raw materials and equipment used in constructing our treatment facilities as well as the raw materials we use in our wastewater treatment and industrial water supply process. For our BOO projects, the purchase costs of our raw materials are accounted for as part of the cost of sales, while the purchase costs of equipment are capitalized and depreciated over the estimated useful lives of such equipment. For our BOT projects, the cost of construction services represent the outsourcing cost we incur in respect of such projects and include the cost of equipment and raw materials purchased and provided by our contractors. Rising prices of raw materials and equipment and other operating costs, to the extent that we cannot pass on such increases to our customers, could adversely affect our financial performance.

Our ability to pass on increases in the purchase price of raw materials and equipment and other operating costs may be limited by certain government pricing policies in place. For projects involving municipal wastewater treatment services and certain of our BOT projects involving industrial wastewater treatment services, the fee we receive for the provision of treatment services typically includes a guaranteed tariff based on a guaranteed minimum treatment volume together with an additional tariff for water or wastewater treated in excess of the minimum volume. Such tariff rates are pre-determined at the time when we enter into the project agreement with the local government. Accordingly, our turnover and profitability are affected by such tariff rates, which are determined by our local government based on factors including the economic indicators for the region in which our facilities are operating, supply of and demand for water and discharge of wastewater and the cost of providing wastewater treatment services in the relevant area. Adjustments to tariffs are generally subject to regulation by various PRC government authorities. Any adjustment agreed to with the local government, may or may not be timely or sufficient to offset such increases. For our BOT projects, the concession agreements contain provisions specifying the circumstances when the parties can adjust the tariffs, generally by reference to inflation and/or changes in benchmark interest rate on loans or utilities charges. In addition, the concession agreement for Huaihua Tianyuan Treatment Facility (Phase I) entitles the parties in principle to adjust the tariffs on a regular basis every two to three years. The tariff adjustments are subject to the government's consent. It is estimated that we will obtain the government's consent within one to two months. During the Track Record Period, we had not adjusted tariffs for our BOT projects as the projects have relatively short operating history.

Our BOO projects are generally not subject to fixed tariffs, and thus we have greater flexibility in formulating our pricing policy and have more latitude in passing increased costs to our customers. For these projects, the relevant local government usually recommends a maximum price for our wastewater treatment or industrial water supply services, taking into account several factors such as, among others, labor costs, utilities charges, other operating costs, market conditions and project investment. The recommended maximum price serves as a guide and is subject to further negotiation with the customers. If we wish to increase our prices beyond the recommended maximum price set by the local government, we can apply to the relevant governmental authority and provide supporting documentation justifying such increase in the recommended maximum prices. The application to increase the recommended maximum tariff will generally take appropriately one month. Under the contracts with our customers at Guangzhou Xinzhou Industrial Park Treatment Facility, we usually are entitled to adjust the prices according to market conditions and national policies and regulations. During the Track Record Period, we regularly reviewed and had adjusted the prices for various types of wastewater in accordance with the prevailing conditions of the industrial park taking into account, amongst others, the changes in operating costs. According to our PRC legal counsel, we have the ability to increase the prices for such projects in the future and even if our increased tariffs exceed the range set forth in the voluntary pricing guideline, we will not be subject to any form of penalty by the local government. However, as a practical matter, in the event that we increase our prices in the future beyond the pricing guideline, we may not be able to successfully negotiate agreements with our customers for such projects.

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Access to capital and cost of financing

Our performance is affected by our access to capital and financing costs. Since our business and operations are capital intensive, we require a significant amount of capital to expand our operations as well as maintain and operate our wastewater treatment and industrial water supply plants. Our projects typically require us to make substantial financial investments during the construction phase of the projects. We are responsible for the costs related to the construction of the water or wastewater treatment facilities, as well as the cost of operations, repairs and maintenance of the treatment facilities during the life of these facilities with respect to our BOO projects, or the concession period with respect to our BOT projects. We are also responsible for the land acquisition costs for our BOO projects. Pursuant to applicable regulations, we are required to fund at least 20% of total project investment amount through internal resources. In practice, we intend to finance the project with our own funds up to 30% of the total project investment amount. Therefore, we usually fund up to 70% of the total project investment amount from external sources, such as bank borrowings.

As a result of the required substantial financial investments for our projects, we need to look to external financing sources such as issuance of equity or debt securities and/or borrowings from banks or other sources. Our access to capital is therefore very important to our performance. The recent global financial crisis caused substantial volatility in the capital markets, which has resulted in reduced liquidity, widening of credit spreads, lack of pricing transparency in credit markets, a reduction in available financing and a tightening of credit terms. If there are prolonged disruptions to the credit markets in the future, this could limit our ability to borrow funds from our current or other funding sources or cause the continued access to funds to become more expensive, and our business may be exposed to a downturn in turnover that might be caused by such tightening of credit conditions.

Our cost of financing impacts our performance. As of December 31, 2008, 2009 and 2010 and the three months ended March 31, 2011, we had approximately HK\$283.5 million, HK\$250.6 million, HK\$319.3 million and HK\$321.5 million, respectively, of outstanding borrowings. Since 2008, we have entered into loan agreements for a significant amount of debt, and we expect to borrow significant amounts in the future to finance our projects. Our long-term borrowings are at various rates linked to the long-term lending rates published by the PBOC. The principal amount of each of our bank loans is to be repaid in installments on a quarterly basis during the life of the loan, with interest to be paid on a monthly basis. Upward fluctuations in the lending rates published by the PBOC may increase the cost of our financing and adversely affect our turnover and profits. In addition, our access to capital and cost of financing are also affected by restrictions imposed from time to time by the PRC Government to restrain money supply and credit availability for fixed asset investments.

Competition

We face competition in the wastewater treatment and industrial water supply services market primarily from existing private wastewater and industrial water supply solution providers in China and new entrants to the market, some of which may have a lower cost structure than ours due to lower capital expenditures or lower labor costs. We believe that factors that are critical to our competitiveness in this market include project execution capability, research and development capability, understanding of the local governmental landscape, quality and price of wastewater treatment and industrial water supply services, brand reputation, marketing and customer services. We believe that we have enjoyed certain competitive advantages as a result of our extensive project execution capabilities, our strong research and technical expertise, our cost-effective centralized treatment solutions, our familiarity with national and local regulations in China and the needs of our principal customers, and our reputation for quality and customer service. The level of competition and our ability to sustain our competitive advantage may have an impact on our business and results of operations.

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We believe there are entry barriers for potential competitors in providing wastewater treatment and industrial water supply services. The relevant environmental protection department sets and allocates the pollutants discharge quota for a designated area. Once the fixed amount of pollutants discharge quota has been fully allocated to the relevant entities by the local government in the regions where we operate, new enterprises intending to start operations in the relevant regions will not be able to obtain any pollutants discharge quota and therefore, unable to obtain approval from the local government to operate in the relevant regions. As such, in certain designated areas where we have obtained an allocated pollutants discharge quota and any remaining discharge quota has been allocated to the other entities, there will be no additional pollutants discharge quota available for any new enterprises. As such, we believe the fixed pollutants discharge quota allocated to us forms a regional entry barrier to our potential competitors, providing us with a strong competitive advantage in such regions. We believe these regional entry barriers will continue to have an impact on our business and results of operations. For additional details, please refer to the sections headed “Business — Competitive Strengths” and “Business — Competition” in this prospectus.

Our ability to expand the scope of our waste treatment services

Our ability to expand the scope of our business is an important factor affecting our future business growth and results of operation. We intend to expand the scope of our services to waste treatment service including sludge treatment business, municipal waste-to-energy business and heating services line. Currently, we are only treating sludge that results from our wastewater treatment process and do not sell post-treated sludge products. We intend to apply for the Sludge Treatment Permit and upon receiving such permit, we will provide such sludge treatment services to third parties and sell the post-treated sludge products to licensed third parties. In addition, as a complementary business, we intend to provide heating services to our customers in Guangzhou Xinzhou Industrial Park.

In addition, we are currently in the process of expanding into the waste-to-energy business. We intend to co-develop a municipal waste-to-energy project in Zengcheng city, Guangdong province, with Guangri Group. For more details, please refer to the section headed “Business — Our Waste-to-Energy Project.” We expect the project to commence operations in 2013. If we cannot successfully expand the scope of our business, our future prospects may be adversely affected. Our future business growth and results of operations may be affected by our ability to expand the scope of our services including the aforesaid sludge treatment business, municipal waste-to-energy business and heating services.

Our ability to strengthen our research and development capabilities

In order to continuously provide customized, integrated and large-scale wastewater treatment and industrial water supply solutions to our customers in a cost-effective and timely manner, we will continue to strengthen our R&D capabilities and focus on practical approaches and solutions for our customers in different industries. We plan to continue customizing and developing new technologies as well as adapting and applying such technologies to existing and new industries. Furthermore, we intend to continue to improve our sludge treatment technology with the plan that we will provide sludge treatment services to our customers in a cost-effective and timely manner upon receiving the relevant permit to operate our business in sludge treatment. In addition, changes in regulations or standards for wastewater treatment and industrial water supply in the regions where we conduct our business may also necessitate the use of new technologies or the improvement of our existing technologies. Thus, our ability to further expand our market share, secure new projects and widen our customer base in turn depends on our ability to strengthen our research and development capabilities.

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Taxation

As we operate in and derive our turnover 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 enterprise income tax on taxable income as reported in their PRC statutory accounts, as adjusted in accordance with the relevant PRC income tax laws.

Pursuant to the Foreign Investment Enterprises and Foreign Enterprises Income Tax Law (外商投資企業和外國企業所得稅法), our wholly foreign-invested subsidiaries, Guangzhou Xintao and Guangzhou Kaizhou, enjoyed full exemption from the statutory national income tax for 2008 and 2009, and will enjoy a 50% reduction in income tax for the three years subsequent to 2009. Without any further tax exemptions or reductions, such subsidiaries will be subject to the uniform enterprise income tax rate of 25% from January 1, 2013. Pursuant to Article 88 of the PRC Enterprises Income Tax Law Implementation Regulations (《中華人民共和國企業所得稅法實施條例》), the income derived from our Longmen Xilin Treatment Facility, Yonghe Haitao Treatment Facility (Phase I) and Huaihua Tianyuan Treatment Facility (Phase I) is exempt from enterprise income tax for three years commencing from each of their respective first revenue-generating year and these subsidiaries are entitled to a 50% reduction from enterprise income tax for the next three years. Currently, pursuant to the “Ministry of Finance, the State Administration of Taxation on Comprehensive Utilization of Resources and Other Products Value-Added Tax Policy Notice” (《財政部、國家稅務總局關於資源綜合利用及其他產品增值稅政策的通知》), Guangzhou Haitao, Longmen Xilin, Guangzhou Xintao and Huaihua Tianyuan are exempt from PRC value-added tax on the provision of wastewater treatment services.

The termination or expiry of any of our existing preferential tax treatments will adversely impact our future operating results. Changes in the taxes applicable to our business in China in the future will affect our tax expenses and profitability.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Critical accounting policies and estimates are those that require our management to exercise judgment and make estimates that would yield materially different results if our management were to apply different assumptions or make different estimates. Our financial information has been prepared in accordance with HKFRS.

The preparation of the financial information in conformity with HKFRSs requires our management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised if the revisions affect only that period, or in the period of the revisions and future periods if the revisions affect both current and future periods.

When reviewing our financial information, you should consider (i) our selection of critical accounting policies, (ii) the judgment and other uncertainties affecting the application of such policies, and (iii) the sensitivity of reported results to changes in conditions and assumptions. We believe the following accounting policies involve the most significant judgment and estimates used in the preparation of our combined financial information. Further details are set forth in Note 1 to the Accountants’ Report included in Appendix I to this prospectus.

Our critical accounting policies are described below.

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Service Concession Arrangements

From time to time, we enter into BOT arrangements with the local government authorities. Pursuant to these BOT arrangements, we generally design, construct, operate and manage wastewater treatment plants in China for a period of 25 to 30 years (the “concession period”). We have the obligation to maintain the wastewater treatment plants in good condition. The local government authorities guarantee that we will receive minimum annual payments in connection with the BOT arrangements. Upon expiry of the concession periods, the wastewater treatment plants and the related facilities will be transferred to the local government authorities at nil consideration. Our management concluded that these BOT arrangements are service concession arrangements under HK (IFRIC) 12 because the local government controls and regulates the services that we provide based on a pre-determined service charge.

Construction services performed pursuant to the service concession arrangements that are in progress at the end of the reporting period are recognized at the net amount of costs incurred plus recognized profit less recognized losses and progress billings, and are presented in our combined balance sheet as “Gross Amounts Due From Customers for Contract Work”.

Turnover recognition

We recognize turnover from the provision of wastewater treatment services when we render such services. Turnover from supply of industrial water is recognized when industrial water is supplied to customers.

We recognize turnover from construction services performed for our BOT projects, pursuant to service concession arrangements, based on the percentage of completion of the work performed. During the Track Record Period, in determining the percentage of completion for each relevant reporting period, we used the actual construction cost incurred during the period over the total actual construction cost during the entire construction phase. When the outcome of a construction contract can be estimated reliably, contract revenue and expenses are recognized in profit or loss in proportion to the percentage of completion of the service concession arrangement. The percentage of completion is assessed by reference to surveys of work performed. When the outcome of a construction contract cannot be estimated reliably, contract revenue is recognized only to the extent of costs incurred that are likely to be recoverable. An expected loss on a construction contract is recognized immediately in profit or loss. When we provide more than one service in a service concession arrangement, the consideration received is allocated by reference to the relative fair values of the services delivered. Finance income is recognized as it accrues using the effective interest method.

As our BOO projects are not service concession arrangements under HK (IFRIC) 12, we do not recognize construction turnover in connection with such projects.

Property, plant and equipment

Property, plant and equipment (other than construction in progress) are measured at cost less accumulated depreciation and accumulated impairment losses. Depreciation is recognized in profit or loss on a straight-line method over the estimated useful lives of each part of an item of property, plant and equipment less their estimated residual value, on the following bases:

	<u>Estimated useful lives</u>
Buildings and other infrastructure	20 years
Machinery	10 — 15 years
Office equipment and others	5 years

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Non-derivative financial instruments

Non-derivative financial instruments include gross amount due from customers for contract work, trade and other receivables, cash and cash equivalents, loans and borrowings and trade and other payables. A financial instrument is recognized if we become a party to the contractual provisions of the instrument.

Gross amount due from customers for contract work is initially recognized at fair value. Subsequent to initial recognition, gross amount due from customers for contract work is stated at amortized cost using the effective interest method.

Trade and other receivables are initially recognized at fair value and thereafter stated at amortized cost less allowance for impairment of doubtful debts, except where the receivables are interest-free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less allowance for impairment of doubtful debts. Fair value is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the balance sheet date. Where discounted cash flow techniques are used, estimated future cash flows are based on our management's best estimates and the discount rate is a market related rate for a similar instrument at the balance sheet date. Cash and cash equivalents comprise cash at bank and on hand.

Loans and borrowings are recognized initially at fair value less attributable transaction costs. Fair value is estimated as the present value of future cash flows, discounted at current market interest rates for similar financial instruments. Subsequent to initial recognition, interest-bearing borrowings are stated at amortized cost with any difference between the amount initially recognized and redemption value recognized in profit or loss over the period of the borrowings, together with any interest and fees payable, using the effective interest method.

Trade and other payables are initially recognized at fair value. Trade and other payables are subsequently stated at amortized cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

Intangible Assets

Intangible assets that are acquired by the Group and have finite useful lives are measured at cost less accumulated amortization and accumulated impairment losses. For our existing wastewater treatment plant operating right acquired by the Group, the estimated useful life is 25 years. Amortization methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

Impairment of Assets

For trade and other current receivables carried at amortized cost, the impairment loss is measured as 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 (the effective interest rate computed at initial recognition of these assets), where the effect of discounting is material. Our management estimates impairment losses for bad and doubtful debts resulting from the inability of the customers to make the required payments. Our management bases its estimates on the aging of the receivables, customer credit-worthiness, and historical write-off experience. If the financial conditions of customers were to deteriorate, actual write-offs would be higher than estimated.

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Property, plant and equipment, intangible assets and other financial assets are tested for impairment whenever events or changes in circumstances indicate that their recorded carrying amounts may not be recoverable. When such a decline has occurred, the carrying amount is reduced to the recoverable amount. The recoverable amount is the greater of the net selling prices and the value in use. It is difficult to estimate precisely selling prices because quoted market prices for our assets are not readily available. In determining the value in use, expected cash flows generated by the asset are discounted to their present value, which requires significant judgment relating to turnover and amount of operating costs. We use all readily available information in determining an amount that is a reasonable approximation of recoverable amount, including estimates based on reasonable and supportable assumptions and projections of turnover and amount of operating costs.

If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognized, the impairment loss is reversed through profit or loss. A reversal of an impairment loss will not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognized in prior years.

Taxation

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits. Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilized, are recognized. The limited exceptions to recognizing deferred tax assets and liabilities are those temporary differences arising from goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination), and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, we control the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefits to be utilized. The amount of deferred tax recognized is measured based on the expected manner of realization or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

DESCRIPTION OF SELECTED INCOME STATEMENT LINE ITEMS

Turnover

Our turnover consists of turnover generated from both our BOO and BOT projects. For our BOO projects, turnover is generated from our wastewater treatment services and industrial water supply services. For our BOT projects, turnover is generated from our wastewater treatment services, the provision of construction services and finance income in connection with the service concession arrangements.

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The following table sets forth the amount of our turnover contributed by each of our business segments for the periods indicated:

	For the year ended December 31,						For the three months ended March 31,			
	2008		2009		2010		2010		2011	
	HK\$'000	% of Total	HK\$'000	% of Total	HK\$'000	% of Total	HK\$'000	% of Total	HK\$'000	% of Total
BOO projects										
Wastewater treatment services ⁽¹⁾	58,983	72.3%	96,950	70.4%	171,753	47.5%	28,344	37.9%	50,411	70.7%
Industrial water supply	17,793	21.8%	27,409	19.9%	37,002	10.2%	6,876	9.2%	10,758	15.1%
Sub-total	76,776	94.1%	124,359	90.3%	208,755	57.7%	35,220	47.1%	61,169	85.8%
BOT projects										
Construction services	4,694	5.8%	11,605	8.4%	131,067	36.3%	37,670	50.3%	—	—
Wastewater treatment services	—	—	1,249	0.9%	14,861	4.1%	1,301	1.7%	7,586	10.7%
Finance income	116	0.1%	544	0.4%	6,761	1.9%	675	0.9%	2,509	3.5%
Sub-total	4,810	5.9%	13,398	9.7%	152,689	42.3%	39,646	52.9%	10,095	14.2%
Total	81,586	100.0%	137,757	100.0%	361,444	100.0%	74,866	100.0%	71,264	100.0%

(1) Our turnover from the provision of industrial wastewater treatment services to Tian Tian at Yonghe Haitao Treatment Facility (Phase I) is classified as turnover under BOO projects because our services to Tian Tian are governed by our separate agreement with Tian Tian and are not governed by the relevant BOT agreement pertaining to Yonghe Haitao Treatment Facility (Phase I). We sought and obtained oral consent from the local government of Xintang town in Zengcheng city, Guangdong province, regarding our provision of wastewater treatment services to Tian Tian before the commencement of such services in June 2010, and subsequently obtained a written confirmation in March 2011.

The following table sets forth the project model, date of construction commencement and commencement of trial operations for our projects:

Project name	Project model	Date of construction commencement	Date of trial operation commencement
Guangzhou Xinzhou Industrial Park Treatment Facility	BOO	September 2003	January 2005
Longmen Xilin Treatment Facility	BOT	May 2008	January 2009
Yonghe Haitao Treatment Facility (Phase I).	BOT	December 2009	October 2010
Huaihua Tianyuan Treatment Facility (Phase I).	BOT	July 2009	July 2010

We recognize turnover from a BOO project only during its operational phase but from a BOT project during both its construction phase and operational phase.

BOO projects

We render wastewater treatment and industrial water supply services under our BOO projects and recognize turnover when such services are rendered during the operational phase. We record the amount of turnover recognized from the provision of wastewater treatment and industrial water supply services in our combined income statement. The unpaid amount of such turnover is recorded as our

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trade and other receivables in our combined balance sheet. Outsourcing costs related to the construction of our facilities, as well as property, plant and equipment used in providing such services are capitalized as fixed assets. Depreciation of such property, plant and equipment is recognized in profit or loss on a straight-line basis over the estimated useful lives less their estimated residual value. Unlike BOT projects, the accounting treatment for BOO projects does not involve any estimation of construction turnover.

During the Track Record Period, the total volume of wastewater treated under our BOO projects was approximately 65.5 million m³ and the average price charged per m³ was approximately HK\$4.99. For the years ended December 31, 2008, 2009 and 2010 and the three months ended March 31, 2010 and 2011, the turnover for industrial water supply represented 21.8%, 19.9%, 10.2%, 9.2% and 15.1%, respectively, of our total turnover for the same periods. For the three months ended March 31, 2011, the turnover for wastewater treatment services under our BOO projects represented 70.7% of our total turnover, which was primarily attributable to our provision of industrial wastewater treatment services to Tian Tian at Yonghe Haitao Treatment Facility (Phase I) and the increase in the unit price charged for wastewater treatment services by Guangzhou Xinzhou Industrial Park Treatment Facility. During the Track Record Period, the total volume of industrial water supplied was 75.4 million m³.

BOT projects

Our BOT projects are considered as service concession arrangements under HK (IFRIC) 12. We recognize turnover during both the construction phase and the operational phase for a BOT project, although we generally only receive payments for our services rendered during the operational phase. Turnover for the construction phase expected to be generated from a BOT project is estimated and valued at the time the relevant contracts for the project are entered into. We engaged an independent property valuer, DTZ, to value the construction services during the Track Record Period that form a basis for us to estimate the total turnover for the construction phase. For the construction phase, we recognize turnover for construction services under our BOT projects on the basis of the percentage of completion. During the Track Record Period, in determining the percentage of completion for each relevant reporting period, we used the actual construction cost incurred during the period over the total actual construction cost during the entire construction phase. Going forward, we need to estimate the amount of construction costs based on our assessment of, among other things, the market conditions and the costs of raw materials and equipment and other operating costs. Our estimation of the expected turnover and cost for the construction phase may change due to a number of factors and necessary adjustments may be required, which may affect our results in subsequent years.

In accordance with paragraph 16 of HK(IFRIC) 12 and other applicable accounting rules and principles, our accounting entries for a BOT project are made as follows:

Construction phase

- Construction turnover is recognized in the combined income statement on the basis of the percentage of completion and a gross amount due from customers for contract work is correspondingly recognized in our combined balance sheet for any amount of such turnover yet to be paid by or billed to our customers. There is generally no tariff payment for services and hence no cash flow during this period. In addition, finance income accrues on the outstanding gross amount due from customers for contract work, using the effective interest method, from the time when we enter into the project agreement with the government to the end of the concession period, including the operational phase.

Operational phase

- During the operational phase when wastewater treatment services are being provided, we record the amount of turnover from such provision of wastewater treatment services. When tariff payments are received, the total amount received will be accounted for in the cash

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flow statements. A portion of the received amount is allocated to settle the gross amounts due from customers for contract work and the trade and other receivables in our combined balance sheet. Finance income continues to accrue on the outstanding gross amount due from customers for contract work, using the effective interest method, till the end of the concession period.

For the year ended December 31, 2010, the construction services turnover represented 36.3% of our total turnover, which was primarily due to the construction of our Yonghe Haitao Treatment Facility (Phase I) and Huaihua Tianyuan Treatment Facility (Phase I) in 2010. For the three months ended March 31, 2011, the construction services turnover was nil, since we did not have any construction services performed during this period. The turnover for wastewater treatment services under our BOT projects, for the same period, represented approximately 10.7% of our total turnover. The turnover for this period was primarily attributable to our Yonghe Haitao Treatment Facility (Phase I) and Huaihua Tianyuan Treatment Facility (Phase I), both of which completed construction and commenced operations in 2010. During the Track Record Period, the total volume of wastewater treated under our BOT projects (excluding the volume of wastewater treated for Tian Tian) was 16.9 million m³ and the average price charged per m³ was HK\$0.96.

As described above, our finance income under our BOT projects is the amount of interest accrued on the outstanding balance of the gross amounts due from customers for contract work at the prevailing PBOC rate at the time that we enter into the relevant BOT agreement.

Our finance income represented 0.1%, 0.4% and 1.9% of our total turnover for the years ended December 31, 2008, 2009 and 2010, and 0.9% and 3.5% of our total turnover for the three months ended March 31, 2010 and 2011, respectively.

During the Track Record Period, we mainly derived revenue from one BOO project, Guangzhou Xinzhou Industrial Park Treatment Facility, but also completed construction of and started generating revenue from three BOT projects, which in combination have a lower designed treatment capacity than the BOO project. Due to the difference in revenue and cost recognition methods for BOO and BOT project models, revenue and cost from BOT projects increased significantly during 2010, mainly resulting from construction services related to BOT projects. The majority of gross profit in 2010 was still mainly attributable to the BOO project. Moreover, we only receive actual tariff payments under the BOT projects after construction completions, even though relevant construction revenue is recognized before tariff payments and hence there is a timing difference between revenue and cashflow for the BOT projects during the construction period. We expect to operate our current BOT projects under the respective concession agreements with concession terms ranging from 25 to 30 years and continue to receive tariff payments as specified in such agreements during the period.

Going forward, we intend to continue our focus on industrial wastewater treatment projects, with BOO as our preferred project model. We will continue to pursue municipal wastewater treatment projects, which are carried out under the BOT project model if we consider them to be beneficial to us, taking into account factors such as profit margins and developing relationships with local governments. Due to the reasons stated above, our results may fluctuate in tandem with the construction progress of future BOT projects.

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Cost of sales

Our cost of sales primarily consists of: (i) raw materials costs; (ii) direct labor costs; (iii) repair and maintenance costs; (iv) costs relating to construction services provided pursuant to the service concession arrangements for our BOT projects; and (v) overhead costs.

The following table sets forth a breakdown of our cost of sales for the periods indicated:

	For the year ended December 31,						For the three months ended March 31,			
	2008		2009		2010		2010		2011	
	HK\$'000	% of Total	HK\$'000	% of Total	HK\$'000	% of Total	HK\$'000	% of Total	HK\$'000	% of Total
Raw materials costs . . .	12,869	36.6%	17,557	38.0%	32,942	18.9%	5,215	11.7%	10,938	56.0%
Direct labor costs . . .	1,887	5.4%	2,225	4.8%	3,017	1.7%	659	1.5%	1,350	6.9%
Repair and maintenance costs . .	629	1.8%	668	1.4%	3,422	1.9%	866	2.0%	1,263	6.5%
Costs relating to the construction services	4,203	12.0%	10,401	22.5%	116,601	66.9%	33,514	75.5%	—	—
Overhead costs	15,514	44.2%	15,418	33.3%	18,437	10.6%	4,148	9.3%	5,968	30.6%
Total	35,102	100.0%	46,269	100.0%	174,419	100.0%	44,402	100.0%	19,519	100.0%

Raw material costs primarily consist of costs of raw materials, such as chemicals, used in our wastewater treatment and industrial water supply processes. Raw material costs represented 36.6%, 38.0% and 18.9% of our total cost of sales for the years ended December 31, 2008, 2009 and 2010, and 11.7% and 56.0% of our total cost of sales for the three months ended March 31, 2010 and 2011, respectively.

Direct labor costs primarily consist of expenses related to wages and overtime payments. Direct labor costs represented 5.4%, 4.8% and 1.7% of our total cost of sales for the years ended December 31, 2008, 2009 and 2010, and 1.5% and 6.9% of our total cost of sales for the three months ended March 31, 2010 and 2011, respectively.

Repair and maintenance costs primarily consist of expenses relating to the repair and maintenance of our wastewater treatment and industrial water supply facilities. Repair and maintenance costs represented 1.8%, 1.4% and 1.9% of our total cost of sales for the years ended December 31, 2008, 2009 and 2010, and 2.0% and 6.5% of our total cost of sales for the three months ended March 31, 2010 and 2011, respectively. As more of our facilities commence operation and the operating facilities also operate for longer periods of time, our repair and maintenance costs may increase.

Costs relating to the construction services represent the outsourcing cost we incur in respect of the provision of construction services performed pursuant to the service concession arrangements under our BOT projects. Such outsourcing cost includes the cost of equipment and building materials purchased and provided by our sub-contractors as well as the construction and installation costs in connection with the concession services. Costs relating to such construction services represented 12.0%, 22.5% and 66.9% of our total cost of sales for the years ended December 31, 2008, 2009 and 2010, and 75.5% and nil of our total cost of sales for the three months ended March 31, 2010 and 2011, respectively. The significant increase of costs relating to the construction services in 2010 was primarily due to the completion of the construction of our BOT projects including Yonghe Haitao Treatment Facility (Phase I) and Huaihua Tianyuan Treatment Facility (Phase I). We did not have any construction services performed for the three months ended March 31, 2011.

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Overhead costs relating to our provision of services include depreciation of our property, plant and equipment used in connection with our BOO projects, operating costs, including utilities, security fee, laboratory test expenses and traveling expenses. Overhead costs represented 44.2%, 33.3% and 10.6% of our total cost of sales for the years ended December 31, 2008, 2009 and 2010, and 9.3% and 30.6% of our total cost of sales for the three months ended March 31, 2010 and 2011, respectively.

The following table sets forth a breakdown of our cost of sales for each of our business segments for the periods indicated:

	For the year ended December 31,						For the three months ended March 31,			
	2008		2009		2010		2010		2011	
	HK\$'000	% of Total	HK\$'000	% of Total	HK\$'000	% of Total	HK\$'000	% of Total	HK\$'000	% of Total
BOO projects										
Wastewater treatment services	24,255	69.1%	29,149	63.0%	46,586	26.7%	8,765	19.8%	12,757	65.3%
Industrial water supply	6,644	18.9%	6,408	13.8%	8,173	4.7%	1,793	4.0%	2,514	12.9%
Sub-total	30,899	88.0%	35,557	76.8%	54,759	31.4%	10,558	23.8%	15,271	78.2%
BOT projects										
Construction services	4,203	12.0%	10,401	22.5%	116,601	66.9%	33,514	75.5%	—	—
Wastewater treatment services	—	—	311	0.7%	3,059	1.7%	330	0.7%	4,248	21.8%
Finance income	—	—	—	—	—	—	—	—	—	—
Sub-total	4,203	12.0%	10,712	23.2%	119,660	68.6%	33,844	76.2%	4,248	21.8%
Total	35,102	100.0%	46,269	100.0%	174,419	100.0%	44,402	100.0%	19,519	100.0%

Gross profit and gross profit margin

Gross profit represents turnover less cost of sales. Gross profit margin is our gross profit divided by turnover, expressed as a percentage.

The following table sets forth our gross profit and gross profit margin for each of our business segments and projects for the periods indicated:

	For the year ended December 31,						For the three months ended March 31,			
	2008		2009		2010		2010		2011	
	Gross Profit	Gross profit margin	Gross Profit	Gross profit margin	Gross Profit	Gross profit margin	Gross Profit	Gross profit margin	Gross Profit	Gross profit margin
	HK\$'000	%	HK\$'000	%	HK\$'000	%	HK\$'000	%	HK\$'000	%
BOO projects										
Wastewater treatment services:										
- Guangzhou Xintao	34,728	58.9%	67,801	69.9%	122,478	72.8%	19,579	69.1%	36,408	75.0%
- Yonghe Haitao (Tian Tian) ⁽¹⁾	—	—	—	—	2,689	78.8%	—	—	1,246	67.6%
Industrial water supply:										
- Guangzhou Kaizhou	11,149	62.7%	21,001	76.6%	28,829	77.9%	5,083	73.9%	8,244	76.6%
Sub-total	45,877	59.8%	88,802	71.4%	153,996	73.8%	24,662	70.0%	45,898	75.0%

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	For the year ended December 31,						For the three months ended March 31,			
	2008		2009		2010		2010		2011	
	Gross Profit	Gross profit margin	Gross Profit	Gross profit margin	Gross Profit	Gross profit margin	Gross Profit	Gross profit margin	Gross Profit	Gross profit margin
	HK\$'000	%	HK\$'000	%	HK\$'000	%	HK\$'000	%	HK\$'000	%
BOT projects										
Construction services:										
- Longmen Xilin	491	10.5%	1,056	10.3%	647	9.5%	161	9.6%	—	—
- Yonghe Haitao	—	—	148	10.6%	7,924	10.7%	2,345	10.7%	—	—
- Huaihua Tianyuan	—	—	—	—	5,895	11.8%	1,650	11.8%	—	—
Finance income:										
- Longmen Xilin	116	—	541	—	1,106	—	231	—	316	—
- Yonghe Haitao	—	—	3	—	2,847	—	184	—	1,136	—
- Huaihua Tianyuan	—	—	—	—	2,808	—	260	—	1,057	—
Wastewater treatment services:										
- Longmen Xilin	—	—	938	75.1%	4,080	74.5%	971	74.6%	902	64.9%
- Yonghe Haitao (non-Tian Tian) ⁽²⁾	—	—	—	—	2,406	78.9%	—	—	1,590	54.9%
- Huaihua Tianyuan	—	—	—	—	5,316	83.9%	—	—	846	25.6%
Sub-total	607	12.6%	2,686	20.0%	33,029	21.6%	5,802	14.6%	5,847	58.0%
Total	46,484	57.0%	91,488	66.4%	187,025	51.7%	30,464	40.7%	51,745	72.6%

- (1) Gross profit of Tian Tian is calculated by deducting the corresponding cost of sales from our turnover from Tian Tian. Such cost of sales is classified under BOO projects which is consistent with the classification of turnover amount from Tian Tian. Such cost of sales amount of Tian Tian is calculated with reference to the percentage of turnover from Tian Tian over total turnover from wastewater treatment services at Yonghe Haitao Treatment Facility (Phase I).
- (2) Gross profit of non-Tian Tian is calculated by deducting the corresponding cost of sales from our turnover from the provision of municipal wastewater treatment services at Yonghe Haitao Treatment Facility (Phase I). Such cost of sales amount relating to the provision of municipal wastewater treatment services is calculated with reference to the percentage of turnover from the provision of municipal wastewater treatment services over total turnover from wastewater treatment services at Yonghe Haitao Treatment Facility (Phase I).

Our gross profit margin depends upon a combination of factors, including the volume of our services, the prices at which we charge for our services, the cost of raw materials, the construction services as well as our labor and overhead costs.

In general, gross profit margin for industrial wastewater treatment services is higher than that for municipal wastewater treatment services. During the Track Record Period, most of our BOT projects involving municipal wastewater treatment services had an average gross profit margin that was comparable to that for our BOO projects involving industrial wastewater treatment services for the same periods. This was primarily attributable to the following:

- Our Longmen Xilin Treatment Facility, which provides municipal wastewater treatment services, had a lower level of pollutants in the wastewater discharged in that particular area and a higher level of tariffs as compared to our other municipal wastewater treatment projects.
- Our Yonghe Haitao Treatment Facility (Phase I) and Huaihua Tianyuan Treatment Facility (Phase I), which commenced operations in 2010, were receiving minimum guaranteed tariffs based on a guaranteed minimum treatment volume in 2010. During this period, the facilities were treating a level of wastewater that was lower than what it would be if the

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facilities were in a more mature stage of operations. Less amount of chemicals was used to treat the lower level of wastewater, resulting in lower costs of wastewater treatment. In addition, these facilities provided industrial wastewater treatment services, which had a gross profit margin comparable to that in general for industrial wastewater treatment services.

Our overall high gross profit margin during the Track Record Period was primarily attributable to the following reasons: (i) our provision of centralized wastewater treatment services to multiple customers, which has allowed us to achieve economies of scale and reduce our treatment costs as we were able to utilize the infrastructure and technologies specific for treating large quantities of wastewater from similar sources and containing similar pollutants; and (ii) our ability to increase the unit price charged for our wastewater treatment services in relation to Guangzhou Xinzhou Industrial Park Treatment Facility. We were not required to obtain prior consent or approval from the local government before we increased such unit price.

The overall gross profit margins for the BOO projects were significantly higher than the BOT projects during the Track Record Period, primarily attributable to the accounting treatment for construction services for the BOT projects. BOT projects are considered service concession arrangements under HK (IFRIC 12) and, as such, the accounting treatment for BOT projects involves revenue recognition for construction services. According to valuation conducted by DTZ, the construction services provided under BOT projects generally carry a gross profit margin of approximately 11.0%. According to HK (IFRIC 12), revenue and costs relating to construction services for BOT projects are recognized based on the stage of completion. For the construction of our existing BOT projects, a substantial portion of the construction services was performed during the Track Record Period. Hence, a substantial portion of the total construction turnover and cost for the facilities was recognized during the Track Record Period. As the turnover and costs relating to BOT projects during the Track Record Period were mainly attributed to these projects' construction turnover and construction costs, and with the generally lower gross profit margin for construction services, we recorded a lower overall gross profit margin for BOT projects during the Track Record Period. For our BOO projects, although we also construct the treatment facilities, no such revenue recognition for construction services is required under HK (IFRIC 12). Construction cost (including the cost of property, plant and equipment) is instead capitalized as fixed assets on the balance sheet and depreciated over the estimated useful life. As such, since the accounting treatment of BOO projects does not involve revenue recognition for construction services, the overall gross profit margin of BOO projects is not reduced by such accounting treatment. Accordingly, the overall gross profit margins of our BOO projects were significantly higher than that of the BOT projects during the Track Record Period.

Construction services in general have a lower gross profit margin as compared to wastewater treatment services. According to the valuation by DTZ, the average gross profit margin for the BOT-related construction services in general is approximately 11.0%. During the year ended December 31, 2008, 2009 and 2010 and the three months ended March 31, 2010, the gross profit margin for our construction services, calculated as the average of gross profit margin for the BOT-related construction services for Longmen Xilin in 2008, Longmen Xilin and Yonghe Haitao in 2009, Longmen Xilin, Yonghe Haitao and Huaihua Tianyuan in both 2010 and for the three months ended March 31, 2010, was 10.5%, 10.4% and 11.0% and 11.0%, respectively, which we believe was in line with the industry average.

Wastewater treatment services under our BOT projects for the three months ended March 31, 2011 had a lower gross profit margin as compared to that for the three months ended March 31, 2010, primarily attributable to: (i) the actual volume was lower than the minimum guaranteed volume (which was included in tariff calculation) provided under the relevant BOT agreement in the initial operation period of our two projects, namely, Yonghe Haitao Treatment Facility (Phase 1) and Huaihua Tianyuan

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Treatment Facility (Phase 1) in 2010; and (ii) the cost of wastewater treated by Huaihua Tianyuan was higher than expected as the quality of incoming wastewater was worse than expected. We are negotiating with the Huaihua municipal governmental authority to increase tariff rates which, if successful, is expected to increase the gross profit margin for Huaihua Tianyuan.

Other revenue

Other revenue primarily consists of finance income generated from amounts due from related parties, finance income generated from bank deposits and gain on acquisition of a subsidiary. The finance income which we had received from Guangzhou To Kee during the Track Record Period was not interest charged on our advances to Guangzhou To Kee but was instead a compensatory fee imposed on Guangzhou To Kee for late repayment of the amount due from Guangzhou To Kee to Guangzhou Xintao and Guangzhou Kaizhou. For more details, please refer to the section headed “Risk Factors — Risks Relating to Our Business — We are subject to risks associated to PRC regulations on lending and capital raising.”

The following table sets forth a breakdown of our other revenue for the periods indicated:

	For the year ended December 31,						For the three months ended March 31,			
	2008		2009		2010		2010		2011	
	HK\$'000	% of Total	HK\$'000	% of Total	HK\$'000	% of Total	HK\$'000	% of Total	HK\$'000	% of Total
Finance income generated from amounts due from related parties . . .	—	—	8,851	99.3%	8,958	59.9%	2,218	28.3%	1,860	50.8%
Finance income generated from bank deposits	67	100.0%	65	0.7%	77	0.5%	31	0.4%	25	0.7%
Gain on acquisition of a subsidiary	—	—	—	—	5,592	37.4%	5,592	71.3%	—	—
Others ⁽¹⁾	—	—	—	—	338	2.2%	—	—	1,777	48.5%
Total	67	100.0%	8,916	100.0%	14,965	100.0%	7,841	100.0%	3,662	100.0%

(1) “Others” in 2010 consisted mainly of a subsidy of HK\$299,000 received from the local government of Longmen County, Guangdong province, in connection with our installation of an on-line monitoring system for our Longmen Xilin Treatment Facility for the relevant environmental protection authority to monitor the quality of the wastewater discharged by such facility. For the three months ended March 31, 2011, “Others” consisted of an amount of a HK\$1.8 million subsidy received from Economics, Trade and Technology Information Bureau and Environmental Protection Administration of Zengcheng City for the improvement of the wastewater treatment system for our Guangzhou Xintao Wastewater Treatment Facility.

For the year ended December 31, 2010, the gain on acquisition of a subsidiary of HK\$5.6 million was attributable to the acquisition of our Huaihua Tianyuan in January 2010. As the purchase consideration for Huaihua Tianyuan was less than the fair value of identifiable assets and liabilities acquired, we recognized a gain from such acquisition.

General and administrative expenses

General and administrative expenses primarily consist of: (i) salaries, welfare and other staff benefits; (ii) depreciation of property, plant and equipment for office use and amortization of lease prepayment relating to land use rights and our wastewater treatment plants operating rights; (iii) office expenses; (iv) marketing expenses; (v) legal and other professional fees; (vi) research and development expenses; and (vii) other administrative expenses.

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The following table sets forth a breakdown of our administrative expenses for the periods indicated:

	For the year ended December 31,						For the three months ended March 31,			
	2008		2009		2010		2010		2011	
	HK\$'000	% of Total	HK\$'000	% of Total	HK\$'000	% of Total	HK\$'000	% of Total	HK\$'000	% of Total
Salaries, welfare and benefits	2,653	45.4%	2,578	41.3%	4,494	14.4%	965	32.8%	1,687	18.4%
Depreciation and amortization	240	4.1%	467	7.5%	925	3.0%	198	6.7%	255	2.8%
Office expenses	488	8.3%	516	8.3%	1,393	4.5%	279	9.5%	441	4.8%
Marketing expenses	244	4.2%	467	7.5%	1,287	4.1%	251	8.5%	537	5.8%
Legal and professional fees	1,922	32.8%	1,826	29.3%	11,908	38.1%	24	0.8%	4,948	53.8%
Environmental compliance costs ⁽¹⁾	—	—	—	—	2,407	7.7%	—	—%	—	—%
Research and development expenses	115	2.0%	175	2.8%	214	0.7%	25	0.9%	98	1.1%
Others ⁽²⁾	190	3.2%	208	3.3%	8,597	27.5%	1,203	40.8%	1,225	13.3%
Total	<u>5,852</u>	<u>100.0%</u>	<u>6,237</u>	<u>100.0%</u>	<u>31,225</u>	<u>100.0%</u>	<u>2,945</u>	<u>100.0%</u>	<u>9,191</u>	<u>100.0%</u>

(1) The expenditure of HK\$2.4 million in 2010 for our compliance with the applicable environmental laws and regulations was primarily attributable to the wastewater discharge fees paid in connection with the volume of wastewater discharged by Guangzhou Xinzhou Industrial Park Treatment Facility in 2008, 2009 and 2010. Due to the delay in administrative processing by the local government, we received the invoices in connection with such wastewater discharge fees only in 2010. As such, the payment for such wastewater discharge fees in connection with the volume of wastewater discharged in 2008, 2009 and 2010 was made only in 2010. We did not make a provision for such amounts in 2008 and 2009 because there was no objective basis upon which a forecast of our wastewater discharge fees can be made, as the COD level of our discharged wastewater is variable. Our wastewater discharge fees is calculated based on actual discharge volume and the actual COD level of our discharged wastewater. While we have records of the actual discharge volume, records of the actual COD level of our discharged wastewater are kept by the local government and not accessible by us. Calculating the wastewater discharge fees based on the maximum allowable COD level to be discharged as shown in our Pollutant Discharge Permit will not reflect a fair estimation, as we had historically been able to achieve a lower COD level than such maximum amount.

(2) "Others" in 2010 primarily included: (i) an incentive payment of HK\$2.3 million paid to Shenzhen Jialinyuan, a non-controlling shareholder of one of our subsidiaries, Huaihua Tianyuan. The amount is mainly for facilitating the subsidiary to enter into a service agreement with a customer during the year ended December 31, 2010. This incentive payment was not related to our acquisition of Huaihua Tianyuan; and (ii) payment of HK\$5.7 million for afforestation works related to our Yonghe Haitao Treatment Facility (Phase I) which was required under the relevant BOT agreement. "Others" for the three months ended March 31, 2011 were miscellaneous expenses consisted mainly of one-off expenses, certain local taxes and rental expenses.

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For the year ended December 31, 2008, our legal and professional fees of HK\$1.9 million were primarily attributable to legal and professional fees incurred in connection with a previously contemplated initial public offering in 2008. We did not proceed with such initial public offering then because the market was uncertain due to the global economic downturn and financial crisis in 2008. For the year ended December 31, 2009, our legal and professional fees of HK\$1.8 million were primarily attributable to the design fees incurred in connection with a feasibility study conducted for our Longmen Xilin Treatment Facility (Phase I). For the year ended December 31, 2010, our legal and professional fees of HK\$11.9 million were primarily attributable to legal and professional fees incurred in connection with the Global Offering. For the three months ended March 31, 2011, our legal and professional fees of HK\$4.9 million were primarily attributable to legal and professional fees incurred in connection with the Global Offering.

Other operating expenses

Other operating expenses primarily consist of losses arising from disposal of property, plant and equipment.

The following table sets forth a breakdown of our other operating expenses for the periods indicated:

	For the year ended December 31,						For the three months ended March 31,			
	2008		2009		2010		2010		2011	
	HK\$'000	% of Total	HK\$'000	% of Total	HK\$'000	% of Total	HK\$'000	% of Total	HK\$'000	% of Total
Losses arising from disposal of property, plant and equipment	2,286	100.0%	—	—	915	50.3%	57	32.2%	—	—
Administrative penalty ⁽¹⁾	—	—	—	—	404	22.2%	1	0.6%	29	21.8%
Others ⁽²⁾	—	—	537	100.0%	499	27.5%	119	67.2%	104	78.2%
Total	2,286	100.0%	537	100.0%	1,818	100.0%	177	100.0%	133	100.0%

(1) This administrative penalty relates to the alleged violation of the wastewater discharge standard and illegal discharge of untreated wastewater in 2009 by Guangzhou Xintao, and was originally paid by the Controlling Shareholder on behalf of our Company on December 4, 2009. Such outstanding amount is reflected in the amounts due to related parties as of December 31, 2010 and was settled in April 2011.

(2) "Others" primarily consisted of business taxes and stamp duty on finance income derived from amounts due from Guangzhou To Kee.

Finance costs

Finance costs primarily consist of interest expenses on our bank borrowings. We incurred finance costs in the amount of HK\$16.1 million in 2009 and HK\$17.7 million in 2010, and HK\$3.4 million and HK\$4.1 million for the three months ended March 31, 2010 and 2011, respectively. We did not incur any finance costs for the year ended December 31, 2008 as we had only secured loans and borrowings in late December 2008.

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Income tax

Our income tax represents enterprise income tax expenses, withholding tax expenses payable on undistributed profits to non-PRC residents by our subsidiaries in China, and tax effect of temporary differences on revenue recognition.

Pursuant to the Foreign Investment Enterprises and Foreign Enterprises Income Tax Law (外商投資企業和外國企業所得稅法), our wholly foreign-invested subsidiaries, Guangzhou Xintao and Guangzhou Kaizhou, enjoyed full exemption from the statutory enterprise income tax for 2008 and 2009. For the year 2010, Guangzhou Xintao and Guangzhou Kaizhou enjoyed a 50% reduction in enterprise income tax and will continue to enjoy a 50% reduction in enterprise income tax for the years 2011 and 2012. Without any further tax exemptions or reductions, such subsidiaries will be subject to the uniform enterprise income tax rate of 25% from 2013 onwards. Furthermore, currently, the income derived from each of our Longmen Xilin Treatment Facility, Yonghe Haitao Treatment Facility (Phase I) and Huaihua Tianyuan Treatment Facility (Phase I) is exempt from enterprise income tax for three years commencing from the first year they start to provide services. Pursuant to Article 88 of the PRC Enterprises Income Tax Law Implementation Regulations (中華人民共和國企業所得稅法實施條例), each is entitled to a 50% enterprise income tax reduction for the next three years.

Except for Guangzhou Haitao which is currently restricted by certain covenants in a loan agreement from making distributions to its shareholders, our PRC subsidiaries may declare dividends to non-PRC residents. According to the Sino-Hong Kong Double Tax Arrangement and the related regulations, a qualified Hong Kong tax resident will be liable for a withholding tax rate of 5% on dividends from a PRC enterprise if the Hong Kong resident is the beneficial owner and holds 25% or more of the equity interest of the PRC enterprise. Furthermore, pursuant to the EIT Law and its implementation rules, dividends receivable by non-PRC corporate resident from PRC enterprises are subject to a withholding income tax at 10% for profits earned since January 1, 2008. For more details, please refer to the section headed “Risk Factors — Risks Relating to Business Operations in the PRC — We rely principally on dividends paid by our subsidiaries to fund any cash and financing requirements we may have, and any limitation on the ability of our PRC subsidiaries to pay dividends to us could have a material adverse effect on our ability to conduct our business.”

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RESULTS OF OPERATIONS

The following table sets forth selected data from our combined statements of comprehensive income for the periods presented, which have been derived from, and should be read in conjunction with, our accountants' report included as Appendix I to this prospectus.

	For the year ended December 31,			For the three months ended March 31,	
	2008	2009	2010	2010	2011
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
				(unaudited)	
Turnover	81,586	137,757	361,444	74,866	71,264
Cost of sales	(35,102)	(46,269)	(174,419)	(44,402)	(19,519)
Gross profit	46,484	91,488	187,025	30,464	51,745
Other revenue	67	8,916	14,965	7,841	3,662
General and administrative expenses	(5,852)	(6,237)	(31,225)	(2,945)	(9,191)
Other operating expenses	(2,286)	(537)	(1,818)	(177)	(133)
Profit from operations	38,413	93,630	168,947	35,183	46,083
Finance costs	—	(16,082)	(17,689)	(3,440)	(4,051)
Profit before taxation	38,413	77,548	151,258	31,743	42,032
Income tax	(1,908)	(3,663)	(24,956)	(5,080)	(7,798)
Profit for the year/period	36,505	73,885	126,302	26,663	34,234
Attributable to:					
- Equity holders of the Company	36,772	74,238	120,874	25,570	33,555
- Non-controlling interests	(267)	(353)	5,428	1,093	679
Profit for the year/period	36,505	73,885	126,302	26,663	34,234
Gross profit margin ⁽¹⁾	57.0%	66.4%	51.7%	40.7%	72.6%
Net profit margin ⁽²⁾	44.7%	53.6%	34.9%	35.6%	48.0%

(1) Calculated as gross profit divided by turnover.

(2) Calculated as profit for the year/period divided by turnover.

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REVIEW OF HISTORICAL OPERATING RESULTS

Three Months Ended March 31, 2011 Compared to Three Months Ended March 31, 2010

Turnover. Our turnover decreased by 4.8% to HK\$71.3 million in the three months ended March 31, 2011 from HK\$74.9 million in the three months ended March 31, 2010. The turnover decreased primarily because we did not generate any turnover from construction services.

- *BOO project — Wastewater treatment services* — Turnover for wastewater treatment services under our BOO projects increased by 78.1% to 50.4 million in the three months ended March 31, 2011 from HK\$28.3 million in the three months ended March 31, 2010, primarily attributable to the increase in demand for wastewater treatment services, which resulted in an increase in the volume of wastewater treated and an increase in the unit price of our services charged to our customers since mid-2010.
- *BOO project — Industrial water supply* — Turnover for industrial water supply services under our BOO projects increased by 56.5% to HK\$10.8 million in the three months ended March 31, 2011 from HK\$6.9 million in the three months ended March 31, 2010, primarily attributable to the increase in demand for industrial water from our customers.
- *BOT project — Construction services* — Turnover for construction services under our BOT projects was nil in the three months ended March 31, 2011, while it was HK\$37.7 million in the three months ended March 31, 2010, as there were no construction services recognizable as turnover during the three months ended March 31, 2011.
- *BOT project — Wastewater treatment services* — Turnover for wastewater treatment services under our BOT projects increased by 484.6% to HK\$7.6 million in the three months ended March 31, 2011 from HK\$1.3 million in the three months ended March 31, 2010, primarily attributable to the operation commencement of Yonghe Haitao Treatment Facility (Phase I) and Huaihua Tianyuan Treatment Facility (Phase I) during the second half of 2010.

Cost of sales. Our total cost of sales decreased by 56.1% to HK\$19.5 million in the three months ended March 31, 2011 from HK\$44.4 million in the three months ended March 31, 2010, primarily because we did not generate any turnover from construction services during the three months ended March 31, 2011.

Gross profit and gross profit margin. Our gross profit increased by 69.8% to HK\$51.8 million in the three months ended March 31, 2011 from HK\$30.5 million in the three months ended March 31, 2010, as a result of the factors described above.

Our overall gross profit margin increased to 72.6% in the three months ended March 31, 2011 from 40.7% in the three months ended March 31, 2010, primarily attributable to the lack of construction services for the three months ended March 31, 2011, as construction services in general have a lower gross profit margin as compared to wastewater treatment.

Other revenue. Our other revenue decreased by 52.6% to HK\$3.7 million in the three months ended March 31, 2011 from HK\$7.8 million in the three months ended March 31, 2010, primarily attributable to the one-off gain on the acquisition of Huaihua Tianyuan Treatment Facility in January 2010 of HK\$5.6 million for the three months ended March 31, 2010. There was no similar gain for the three months ended March 31, 2011.

General and administrative expenses. Our general and administrative expenses increased by 217.2% to HK\$9.2 million in the three months ended March 31, 2011 from HK\$2.9 million in the three months ended March 31, 2010, primarily attributable to the increase in expenses for professional fees in connection with the Global Offering.

Other operating expenses. Our other operating expenses for the three months ended March 31, 2010 and the three months ended March 31, 2011 had remained relatively stable.

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Finance costs. Our finance costs increased by 20.6% to HK\$4.1 million in the three months ended March 31, 2011 from HK\$3.4 million in the three months ended March 31, 2010, primarily attributable to the new bank borrowings in April 2010, which led to an increase in finance costs from April 2010 onwards.

Profit before taxation. Our profit before taxation increased by 32.5% to HK\$42.0 million in the three months ended March 31, 2011 from HK\$31.7 million in the three months ended March 31, 2010, primarily attributable to factors described above.

Income tax. Our income tax increased by 52.9% to HK\$7.8 million in the three months ended March 31, 2011 from HK\$5.1 million in the three months ended March 31, 2010, which was in line with the increase in turnover from wastewater treatment services and industrial water supply services. Our effective tax rate, calculated as income tax divided by profit before taxation, increased to 18.6% in the three months ended March 31, 2011 from 16.0% in the three months ended March 31, 2010, primarily attributable to the fact that the expenses in connection with the Global Offering incurred for the three months ended March 31, 2011, which reduced our profit before taxation. However, because these expenses are not tax deductible under the Hong Kong tax rules, our income tax amount was not reduced. As a result, the effective tax rate for the three months ended March 31, 2011 is higher than that for the three months ended March 31, 2010. There were no such Global Offering expenses incurred for the three months ended March 31, 2010.

Profit for the year. Our profit for the year increased by 28.1% to HK\$34.2 million in the three months ended March 31, 2011 from HK\$26.7 million in the three months ended March 31, 2010, primarily as a result of the factors described above.

Net profit margin. During the three months ended March 31, 2010 and 2011, our net profit margin was 35.6% and 48.0%, respectively. Such increase was mainly attributable to the nil revenue generated from construction services as mentioned above, the effect of which was partially offset by the expenses in connection with the Global Offering incurred for the three months ended March 31, 2011.

2010 Compared to 2009

Turnover. Our turnover increased by 162.3% to HK\$361.4 million in 2010 from HK\$137.8 million in 2009. The increase in our turnover in 2010 as compared to 2009 was primarily attributable to the increase in turnover generated from construction services, wastewater treatment and industrial water supply services.

- **BOO project — Wastewater treatment services** — Turnover for wastewater treatment services under our BOO projects increased by 77.1% to HK\$171.8 million in 2010 from HK\$97.0 million in 2009, primarily attributable to the increase in demand for wastewater treatment service which resulted in an increase in the volume of wastewater treated and an increase in the unit price of our service charged to our customers in 2010.
- **BOO project — Industrial water supply** — Turnover for industrial water supply services under our BOO projects increased by 35.0% to HK\$37.0 million in 2010 from HK\$27.4 million in 2009, primarily attributable to the increase in demand for industrial water from our customers.
- **BOT project — Construction services** — Turnover for construction services under our BOT projects increased by 1,030.2% to HK\$131.1 million in 2010 from HK\$11.6 million in 2009, primarily attributable to the construction of Yonghe Haitao Treatment Facility (Phase I) and Huaihua Tianyuan Treatment Facility (Phase I), which was completed in 2010.
- **BOT project — Wastewater treatment services** — Turnover for wastewater treatment services under our BOT projects increased by 1,141.7% to HK\$14.9 million in 2010 from HK\$1.2 million in 2009, primarily attributable to the commencement of the operational phase of our Yonghe Haitao Treatment Facility (Phase I) and Huaihua Tianyuan Treatment Facility (Phase I) in 2010.

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Cost of sales. Our total cost of sales increased by 276.7% to HK\$174.4 million in 2010 from HK\$46.3 million in 2009, primarily attributable to the increase in construction costs which was primarily due to substantial construction work of our BOT projects completed in 2010 and an increase in raw materials consumption, which was in line with the increase in the volume of wastewater being treated.

Gross profit and gross profit margin. Our gross profit increased by 104.4% to HK\$187.0 million in 2010 from HK\$91.5 million in 2009, as a result of the factors described above.

Our overall gross profit margin decreased to 51.7% in 2010 from 66.4% in 2009, which was mainly attributable to a greater proportion of gross profit contributed by the construction service segment in 2010, which had a relatively low gross profit margin.

Other revenue. Our other revenue increased by 68.5% to HK\$15.0 million in 2010 from HK\$8.9 million in 2009, primarily attributable to the gain resulting from the acquisition of Huaihua Tianyuan Treatment Facility in January 2010.

General and administrative expenses. Our general and administrative expenses increased by 403.2% to HK\$31.2 million in 2010 from HK\$6.2 million in 2009, primarily attributable to legal and professional fees incurred in connection with the Global Offering and the increase in the number of our operating subsidiaries during 2010.

Other operating expenses. Our other operating expenses increased by 260.0% to HK\$1.8 million in 2010 from HK\$0.5 million in 2009, primarily attributable to the write-off of certain property, plant and equipment that became obsolete in 2010.

Finance costs. Our finance costs increased by 9.9% to HK\$17.7 million in 2010 from HK\$16.1 million in 2009, primarily attributable to the new bank borrowings obtained during 2010 and the interest on such borrowings.

Profit before taxation. Our profit before taxation increased by 95.2% to HK\$151.3 million in 2010 from HK\$77.5 million in 2009. This increase was primarily due to the net effects of the factors described above.

Income tax. Our income tax increased by 575.7% to HK\$25.0 million in 2010 from HK\$3.7 million in 2009. Our effective tax rate, calculated as income tax divided by profit before taxation, increased to 16.5% in 2010 from 4.7% in 2009, primarily attributable to Guangzhou Kaizhou and Guangzhou Xintao, whose tax exemption expired and a 50% tax reduction applied in 2010.

Profit for the year. Our profit for the year increased by 70.9% to HK\$126.3 million from HK\$73.9 million in 2009 as a result of the factors described above.

Net profit margin. During the years ended December 31, 2009 and 2010, our net profit margin was 53.6% and 34.9%, respectively. Such decrease was mainly attributable to the decrease in our gross profit margin from 66.4% in 2009 to 51.7% in 2010 and the increase in our legal and professional fees incurred in connection with the Global Offering.

2009 Compared to 2008

Turnover. Our turnover increased by 68.9% to HK\$137.8 million in 2009 from HK\$81.6 million in 2008. The increase in our turnover in 2009 as compared to 2008 is primarily attributable to the increase in turnover generated from construction services, wastewater treatment and industrial water supply services.

- **BOO project — Wastewater treatment services** — Turnover for wastewater treatment services under our BOO projects increased by 64.4% to HK\$97.0 million in 2009 from HK\$59.0 million in 2008, primarily attributable to an increase in the volume of wastewater treated and an increase in the unit price of our services charged to our customers in 2009.

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- *BOO project — Industrial water supply* — Turnover for industrial water supply services under our BOO projects increased by 53.9% to HK\$27.4 million in 2009 from HK\$17.8 million in 2008, primarily attributable to an increase in demand for industrial water from our customers in Guangzhou Xinzhou Industrial Park.
- *BOT project — Construction services* — Turnover for construction services under our BOT projects increased by 146.8% to HK\$11.6 million in 2009 from HK\$4.7 million in 2008, primarily attributable to the completion of Longmen Xilin Treatment Facility in 2009.
- *BOT project — Wastewater treatment services* — Turnover for wastewater treatment services under our BOT projects increased to HK\$1.2 million in 2009 from nil in 2008, primarily attributable to the commencement of the operational phase of our Longmen Xilin Treatment Facility in 2009.

Cost of sales. Our total cost of sales increased by 31.9% to HK\$46.3 million in 2009 from HK\$35.1 million in 2008, primarily attributable to an increase in costs relating to our construction services for BOT projects of HK\$6.2 million, which was in line with our increase in turnover from construction services, as well as an increase in raw material costs of HK\$4.7 million, which was in line with the increase in turnover from our wastewater treatment services and industrial water supply services.

Gross profit and gross profit margin. Our gross profit increased by 96.8% to HK\$91.5 million in 2009 from HK\$46.5 million in 2008, as a result of the foregoing factors.

Our overall gross profit margin increased to 66.4% in 2009 from 57.0% in 2008, which was attributable to the increase in gross profit margin for our BOO projects, partially offset by a higher proportion of construction services for our BOT projects in 2009 as compared to 2008. During 2008 and 2009, construction services had a lower gross profit margin as compared to wastewater treatment services.

The increase in gross profit margin for our BOO projects in 2009 as compared to 2008 is primarily attributable to:

- *Wastewater treatment services* — Gross profit margin for wastewater treatment services under our BOO projects increased to 69.9% in 2009 from 58.9% in 2008, primarily attributable to the increase in unit price of our services and the commencement of our waste leachate treatment service in July 2009. The rate of increase in the turnover for our wastewater treatment services under BOO projects outpaced the rate of increase in the corresponding cost of sales, resulting in a higher gross profit margin in 2009.
- *Supply of industrial water* — Gross profit margin for industrial water supply services under our BOO projects increased to 76.6% in 2009 from 62.7% in 2008. The depreciation of property, plant and equipment remained relatively stable during 2009 and 2008 despite our higher turnover in 2009. The rate of increase in our turnover for industrial water supply services therefore outpaced the rate of increase in the corresponding cost of sales.

Other revenue. Our other revenue increased by 8,800.0% to HK\$8.9 million in 2009 from HK\$0.1 million in 2008, primarily attributable to the increase in finance income accrued on amounts due from related parties in 2009.

General and administrative expenses. Our general and administrative expenses for 2008 and 2009 had remained relatively stable.

Other operating expenses. Our other operating expenses decreased by 78.3% to HK\$0.5 million in 2009 from HK\$2.3 million in 2008, primarily attributable to the one-time write-off of certain property, plant and equipment that became obsolete in 2008, which resulted in the loss arising from disposal of property, plant and equipment of HK\$2.3 million recorded in 2008.

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Finance costs. Our finance costs increased to HK\$16.1 million in 2009 from nil in 2008, primarily attributable to the full year interest expense from bank borrowings being recorded in 2009. We did not incur any interest expense in 2008 as our loans were borrowed in late December 2008.

Profit before taxation. Our profit before taxation increased by 101.8% to HK\$77.5 million in 2009 from HK\$38.4 million in 2008. This increase was primarily due to the factors described above.

Income tax. Our income tax increased by 94.7% to HK\$3.7 million in 2009 from HK\$1.9 million in 2008. Our effective tax rate, calculated as income tax divided by profit before taxation, was 4.7% in 2009 and relatively stable compared to that of 5.0% in 2008.

Profit for the year. Our profit for the year increased by 102.5% to HK\$73.9 million in 2009 from HK\$36.5 million in 2008 as a result of the factors described above.

Net profit margin. During the year ended December 31, 2008 and 2009, our net profit margin was 44.7% and 53.6%, respectively. Our net profit margin increased from 44.7% in 2008 to 53.6% in 2009, primarily attributable to the increase in the gross profit margin from 58.9% in 2008 to 69.9% in 2009 for wastewater treatment services and from 62.7% in 2008 to 76.6% in 2009 for industrial water supply services as described above, partially offset by the increase in finance costs from nil in 2008 to HK\$16.1 million in 2009.

LIQUIDITY AND CAPITAL RESOURCES

Our principal liquidity and capital requirements primarily relate to investments in our projects, acquisition of land use rights, construction of our wastewater treatment and industrial water supply facilities, purchases of equipment, costs and expenses related to the operation and maintenance of our facilities, as well as investments in our research and development capabilities. We have historically met our capital expenditures, working capital and other liquidity requirements principally from cash generated from our operations, bank borrowings and capital contributions from shareholders. Going forward, we expect to fund our foreseeable working capital, capital expenditures and other capital requirements with a combination of various sources, including cash generated from our operations, bank borrowings and the net proceeds from the Global Offering.

Cash Flows

The following table presents selected cash flow data from our combined cash flow statements for the years indicated:

	For the year ended December 31,			For the three months ended March 31,	
	2008	2009	2010	2010	2011
	HK\$'000	HK\$'000	(HK\$'000)	HK\$'000	HK\$'000
				(unaudited)	
Net cash generated from/(used in) operating activities	57,295	63,708	10,434	(5,427)	20,657
Net cash (used in)/generated from investing activities	(325,643)	19,182	(101,173)	(17,140)	120,294
Net cash generated from/(used in) financing activities	283,543	(49,293)	42,886	(6,822)	(100,093)
Cash and cash equivalents at end of the year/period	29,920	63,571	16,365	34,945	57,419

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Net cash generated from/(used in) operating activities

Net cash generated from operating activities in 2008 was HK\$57.3 million. This amount primarily reflected our profit before taxation of HK\$38.4 million for 2008, as adjusted by income statement items with non-operating cash effect of HK\$7.5 million and primarily the increase in trade and other payables of HK\$22.8 million, which was mainly attributable to advance from Longmen Copper, a related company. The cash generated from operating activities was partially offset by: (A) an increase in trade and other receivables of HK\$6.5 million, which was in line with our increase in turnover; and (B) an increase in gross amounts due from customers for contract work of HK\$4.9 million, primarily attributable to the construction services performed in connection with Longmen Xilin Treatment Facility (Phase I).

Net cash generated from operating activities in 2009 was HK\$63.7 million. This amount primarily reflected our profit before taxation of HK\$77.5 million for 2009, as adjusted by income statement items with non-operating cash effect of HK\$15.8 million. The cash generated from operating activities was partially offset by: (A) a decrease in trade and other payables of HK\$10.3 million, primarily attributable to full repayment of advance from Longmen Copper, a related company; and (B) an increase in gross amounts due from customers for contract work of HK\$11.4 million, primarily attributable to the completion of the construction of Longmen Xilin Treatment Facility (Phase I).

Net cash generated from operating activities in 2010 was HK\$10.4 million. This amount primarily reflected our profit before taxation of HK\$151.3 million, as adjusted by income statement items with non-operating cash effect of HK\$9.2 million and primarily an increase in trade and other payables of HK\$68.3 million, which was primarily attributable to the increase in outstanding amount owed to our sub-contractors for the construction services performed in connection with Yonghe Haitao Treatment Facility (Phase I) and Huaihua Tianyuan Treatment Facility (Phase I) and the increase in the amount due to related parties of HK\$15.4 million, primarily due to the advance from Shenzhen Jialinyuan which in turn was mainly for payment of certain construction costs in connection with Huaihua Tianyuan Treatment Facility (Phase I). The cash generated from operating activities was partially offset by: (A) the increase in gross amounts due from customers for contract work of HK\$176.9 million, primarily attributable to the completion of Yonghe Haitao Treatment Facility (Phase I) and Huaihua Tianyuan Treatment Facility (Phase I)⁽¹⁾; and (B) an increase in trade and other receivables of HK\$29.8 million, which was in line with the increased turnover in 2010.

Net cash used in operating activities for the three months ended March 31, 2010 was HK\$5.4 million. This amount primarily reflected our profit before taxation of HK\$31.7 million, as adjusted by income statement items with non-operating cash effect of HK\$2.8 million and primarily attributable to the following factors: (A) the increase in gross amount due from customers for contract work of HK\$38.0 million which in turn was related to the construction of Guangzhou Haitao Treatment Facility (Phase I) and Huaihua Tianyuan Treatment Facility (Phase I); and (B) the decrease in trade and other receivables of HK\$2.7 million which was primarily attributable to the decrease in other receivables of HK\$10.4 million which arose from the acquisition of Huaihua Tianyuan Treatment Facility (Phase I) in January 2010, partially offset by an increase in trade receivables of HK\$7.7 million.

(1) Such gross amounts due from customers for contract work represents the revenue to be received from construction of Yonghe Haitao Treatment Facility (Phase I) and Huaihua Tianyuan Treatment Facility (Phase I) and bear interest under such BOT arrangement while the investment amount only represented cost (not revenue) of constructing the respective facilities. Such revenue include finance income and construction revenue which includes a profit element for the construction services. In addition, the investment amount for the projects was denominated in RMB while the increase in gross amount due from customer for contract work was denominated in Hong Kong dollars. As such, the gross amounts due from customers for contract work are different from the total investment amount for the projects.

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Net cash generated from operating activities in the three months ended March 31, 2011 was HK\$20.7 million. This amount primarily reflected our profit before taxation of HK\$42.0 million, as adjusted by income statement items with non-operating cash effect of HK\$6.7 million. The cash generated from operating activities was partially offset by: (A) the decrease in trade and other payables of HK\$7.1 million, primarily attributable to the partial repayment of trade payables to our sub-contractors for their construction work during 2010 related to our new treatment facilities; (B) the increase in trade and other receivables of HK\$8.3 million, which was in line with the increase in turnover from wastewater treatment services and industrial water supply services; and (C) the payment of income tax of HK\$11.1 million.

Net cash (used in)/generated from investing activities

Net cash used in investing activities in 2008 was HK\$325.6 million, primarily as a result of advance to Guangzhou To Kee of HK\$317.2 million.

Net cash generated from investing activities in 2009 was HK\$19.2 million, primarily as a result of repayment from Guangzhou To Kee of HK\$20.0 million.

Net cash used in investing activities in 2010 was HK\$101.2 million, primarily as a result of advance to Guangzhou To Kee of HK\$86.9 million and purchase of property, plant and equipment of HK\$14.4 million.

Net cash used in investing activities for the three months ended March 31, 2010 was HK\$17.1 million, primarily as a result of advance to Guangzhou To Kee of HK\$16.7 million.

Net cash generated from investing activities for the three months ended March 31, 2011 was HK\$120.3 million, primarily as a result of repayment from Guangzhou To Kee of HK\$172.6 million. The effect of such repayment was offset by the payment for purchase of property, plant and equipment of HK\$52.3 million, which was for the new business and expansion.

For further details about advances to Guangzhou To Kee, please refer to the section headed “Risk Factors — Risks Relating to our Business — we are subject to risks associated with PRC regulations on lending and capital raising.”

Net cash generated from/(used in) financing activities

Net cash generated from financing activities in 2008 was HK\$283.5 million, primarily as a result of proceeds from bank loans of HK\$283.5 million.

Net cash used in financing activities in 2009 was HK\$49.3 million, primarily as a result of: (i) repayment of principal amounts on bank loans of HK\$33.3 million; and (ii) interest payment of HK\$16.1 million.

Net cash generated from financing activities in 2010 was HK\$42.9 million, primarily as a result of: proceeds from bank loans of HK\$79.7 million. This amount was partially offset by: (i) repayment of principal amounts on bank loans of HK\$19.7 million; and (ii) interest payment of HK\$17.1 million.

Net cash used in financing activities for the three months ended March 31, 2010 was HK\$6.8 million, attributable to interest paid on bank borrowings of HK\$3.4 million and repayment of principals amounts on bank loans of HK\$3.4 million.

Net cash used in financing activities for the three months ended March 31, 2011 was HK\$100.1 million, primarily as a result of: (i) dividend paid to the equity holders of the Company in the amount of HK\$95.0 million; (ii) repayment of bank loans in the amount of HK\$1.1 million; and (iii) interest payment of HK\$4.0 million.

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WORKING CAPITAL

Taking into account our cash and cash equivalents on hand, the net cash flow from our operating activities, our available borrowing facilities (including the committed renewal of these facilities upon their expiration) and the estimated net proceeds from the Global Offering, our Directors are satisfied that we have sufficient working capital for at least the next 12 months from the date of this prospectus.

NET CURRENT ASSETS

Details of our current assets and liabilities at each of the indicated balance sheet dates are as follows:

	As of December 31,			As of March 31,	As of April 30,
	2008	2009	2010	2011	2011
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000 (unaudited)
Current assets					
Inventories	297	431	353	783	974
Trade and other receivables	257,526	263,594	389,854	223,866	143,911
Gross amounts due from customers for contract work	806	3,403	12,529	12,815	12,958
Cash and cash equivalents	29,920	63,571	16,365	57,419	42,827
Subtotal	288,549	330,999	419,101	294,883	200,670
Current liabilities					
Trade and other payables	87,206	69,201	118,935	105,058	102,656
Loans and borrowings	37,646	13,628	17,644	19,613	19,751
Current taxation	—	—	10,542	10,477	7,352
Subtotal	124,852	82,829	147,121	135,148	129,759
Net current assets	163,697	248,170	271,980	159,735	70,911

As of March 31, 2011, we had net current assets of HK\$159.7 million. The key components of our current assets as of such date included mainly trade and other receivables and cash and cash equivalents. The key components of our current liabilities as of such date included mainly trade and other payables and the current portion of our bank borrowings.

As of April 30, 2011, we had net current assets of HK\$70.9 million. The key components of our current assets as of such date included mainly trade and other receivables and cash and cash equivalents. The key components of our current liabilities as of such date included mainly trade and other payables and the current portion of our bank borrowings. Our net current assets decreased to HK\$70.9 million as of April 30, 2011 from HK\$159.7 million as of March 31, 2011 primarily due to the fact that we declared and paid HK\$93.0 million of dividend in April 2011.

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CERTAIN SELECTED BALANCE SHEET ITEMS

Trade and Other Receivables

Trade and other receivables consist of trade receivables, amounts due from related parties, prepayments and other receivables, which include labor protection costs, consultancy fees, staff advances, prepayments and deposits. For turnover that was billed for our BOT projects, we recognize such amount as trade and other receivables and record it in our combined balance sheet.

The following table sets forth our trade and other receivables as of the dates indicated:

	As of December 31,			As of March 31,
	2008	2009	2010	2011
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Trade receivables	6,879	15,221	33,226	43,660
Amounts due from related parties	248,501	243,224	350,838	173,614
— Trade related	—	—	1,856	553
— Non-trade related	248,501	243,224	348,982	173,061
Prepayments and other receivables	2,146	5,149	5,790	6,592
Total	<u>257,526</u>	<u>263,594</u>	<u>389,854</u>	<u>223,866</u>

The increase in our trade and other receivables to HK\$263.6 million as of December 31, 2009 from HK\$257.5 million as of December 31, 2008 was primarily attributable to the increase in the amount of our trade receivables, which was mainly due to the increase in turnover from our wastewater treatment services and industrial water supply services provided in 2009.

The increase in our trade and other receivables to HK\$389.9 million as of December 31, 2010 from HK\$263.6 million as of December 31, 2009 was primarily due to: (A) the increase in our amounts due from related parties, which was mainly attributable to our advance to Guangzhou To Kee; and (B) the increase in turnover from our wastewater treatment services and industrial water supply services.

The decrease in our trade and other receivables to HK\$223.9 million as of March 31, 2011 from HK\$389.9 million as of December 31, 2010 was primarily due to the partial repayment from Guangzhou To Kee to settle the amount due from related parties.

Most of our amounts due from related parties are non-trade related in nature, which mainly represented (i) advances made to Guangzhou To Kee for its business operation and development amounted to HK\$177.0 million and certain expenses paid on behalf of related parties; and (ii) an arrangement entered into for the purposes of replacing an existing bank facility (置換貸款) amounted to HK\$149.3 million. For details of such loan replacement, please refer to the section headed “Risk Factors — Risk Relating to Our Business — We are subject to risks associated to PRC regulations on lending and capital raising.” As of the Latest Practicable Date, we had fully settled all amounts due from related parties. Our Directors have confirmed that all related party transactions (including recurring and non-recurring transactions) were conducted based on normal commercial terms.

Our trade receivables turnover days were 32.7 days, 44.2 days, 54.2 days, 40.3 days and 57.2 days in 2008, 2009 and 2010 and the three months ended March 31, 2010 and 2011, respectively. The trade receivable turnover days were calculated as the ending trade receivable balances for the period, divided by turnover for the period (excluding turnover from construction services and finance income), multiplied by 365 days for a year (or, for the three months ended March 31, 2010 and 2011, multiplied by 90 days). The increase in our trade receivables turnover days from 32.7 days in 2008 to 44.2 days in 2009 was primarily due to the higher ending balance of trade receivables as of the end

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of 2009 due to a substantial growth in business as compared to that as of the end of 2008. The increase in the trade receivables turnover days from 44.2 days in 2009 to 54.2 days in 2010 was primarily due to the higher closing balance of trade receivables in 2010 as a result of the continued growth of our business, as well as the increase in the proportion of trade receivables from the local governments relating to our BOT projects, whose payment was in general slower than that of customers of our BOO projects. The increase in the trade receivables turnover days from 40.3 days for the three months ended March 31, 2010 to 57.2 days for the three months ended March 31, 2011 was primarily due to the increase in the proportion of trade receivables from the local governments relating to our BOT projects.

As of May 31, 2011, approximately 64.1% of our trade receivables as of March 31, 2011 had been settled.

The following table sets forth the aging analysis of our trade receivables as of the dates indicated:

	As of December 31,			As of March 31,
	2008	2009	2010	2011
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Within 30 days	6,879	13,549	29,479	29,215
31 to 120 days	—	1,672	3,564	13,120
120 to 180 days	—	—	183	1,325
Total	<u>6,879</u>	<u>15,221</u>	<u>33,226</u>	<u>43,660</u>

It is our policy to grant our customers (other than local governments) a credit period of 30 days. For local government customers, according to our BOT agreements, we generally grant a credit period ranging from 10 to 30 days; however, in practice, for our new BOT projects, due to the relevant government authorities' internal administrative procedures, we generally only receive payment from the local governments in 60 to 90 days.

At the end of each fiscal year, we consider whether full provision for any overdue debts should be made. In making this judgment, we review the carrying amounts of our assets to determine whether there is any indication that those assets have suffered an impairment loss. We estimate impairment losses for bad and doubtful debts resulting from the inability of our customers to make the required payments. We base the estimates on the aging of the receivables, customer credit-worthiness, and any history of write-offs. We periodically review the payment status of our trade and other receivables and take appropriate measures to collect overdue accounts.

During the Track Record Period, no provision for impairment losses in respect of trade and other receivables was recorded at each of the balance dates as we were satisfied with the recoverability of these receivables.

Gross Amounts due from Customers for Contract Work

Gross amounts due from customers for contract work represent the turnover to be received from construction and bear interest under the BOT arrangement. This amount will be settled by cash tariff payments to be received during the operational phase of the BOT projects. The portion of such amount due within 12 months from a particular balance sheet date is classified as current assets as of that balance sheet date and the remainder as non-current assets. As compared to trade receivables, which represent receivables for all services rendered, including contract work, at the time billings have been

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made to customers, gross amounts due from customers for contract work represents the gross amount expected to be collected from customers for contract work performed but for which billing has not yet been made. At the time of actual billing to customers, the amount to be billed is transferred from gross amounts due from customers for contract work to trade receivables.

As of December 31, 2008, 2009 and 2010 and March 31, 2011, the gross amounts due from customers for contract work that are classified as current assets represented 0.3%, 1.0%, 3.0% and 4.3% of our total current assets, respectively. The gross amounts due from customers for contract work that are classified as current assets increased by 325.0% to HK\$3.4 million in 2009 from HK\$0.8 million in 2008, primarily attributable to the construction and completion of our Longmen Xilin Treatment Facility in 2009. The gross amounts due from customers for contract work that are classified as current assets increased by 267.6% to HK\$12.5 million in 2010 from HK\$3.4 million in 2009, primarily attributable to the construction and completion of our Yonghe Haitao Treatment Facility (Phase I) and Huaihua Tianyuan Treatment Facility (Phase I) in 2010. The gross amounts due from customers for contract work that are classified as current assets increased by 2.4% to HK\$12.8 million as of March 31, 2011 from HK\$12.5 million as of December 31, 2010, primarily attributable to the construction and completion of our Yonghe Haitao Treatment Facility (Phase I) and Huaihua Tianyuan Treatment Facility (Phase I) in the second half of year 2010.

As of December 31, 2008, 2009 and 2010 and March 31, 2011, the gross amounts due from customers for contract work that are classified as non-current assets represented 3.0%, 9.5%, 54.4% and 46.6% of our total non-current assets, respectively. The gross amounts due from customers for contract work that are classified as non-current assets increased by 220.0% to HK\$12.8 million in 2009 from HK\$4.0 million in 2008, primarily attributable to the completion of our Longmen Xilin Treatment Facility in 2009. The gross amounts due from customers for contract work that are classified as non-current assets increased by 1,160.2% to HK\$161.3 million in 2010 from HK\$12.8 million in 2009, primarily attributable to the construction and completion of our Yonghe Haitao Treatment Facility (Phase I) and Huaihua Tianyuan Treatment Facility (Phase I) in 2010. The gross amounts due from customers for contract work that are classified as non-current assets as of March 31, 2011 did not fluctuate significantly as compared with that as of December 31, 2010 since there was no construction service during the three months ended March 31, 2011.

Inventories

Our inventories mainly comprise raw materials consumed during the supply of industrial water and wastewater treatment services. Our inventories are measured at the lower of cost and net realizable value. The cost of inventories is based on the weighted average cost principle, and includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition.

The following table sets forth information about our inventories as of the dates indicated:

	As of December 31,			As of March 31,
	2008	2009	2010	2011
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Raw materials	297	431	353	783
Total	297	431	353	783

As of May 31, 2011, 74.6% of our inventories as of March 31, 2011 had been used. We do not have significant amounts of inventories during the Track Record Period because unlike a manufacturing company, we do not have work-in-progress or finished products. In addition, since our

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raw materials were sourced from a few reliable suppliers located near Guangzhou Xinzhou Industrial Park Treatment Facility and we have readily available alternative suppliers who can offer similar terms as our existing suppliers, we believe there was no need for us to stock up raw materials in advance and hold a significant amount of inventories for our business operations.

Trade and Other Payables

Trade and other payables consist of trade payables, payables to related parties and other payables. Trade payables primarily relate to our purchases of raw materials from suppliers for use during wastewater treatment and industrial water supply services. Other payables primarily include construction contract payables, payroll payables, accruals, and tax payables. As of the Latest Practicable Date, we have fully settled all amounts due to related parties.

The following table sets forth our trade and other payables as of the dates indicated:

	As of December 31,			As of March 31,
	2008	2009	2010	2011
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Trade payables	1,637	5,128	9,447	6,336
Payables to related parties	80,095	61,773	77,137	70,641
Other payables	5,474	2,300	32,351	28,081
Total	<u>87,206</u>	<u>69,201</u>	<u>118,935</u>	<u>105,058</u>

The decrease in our trade and other payables to HK\$69.2 million as of December 31, 2009 from HK\$87.2 million as of December 31, 2008 was primarily attributable to the decrease in payables to related parties, which was mainly due to the full repayment to Longmen Copper. The increase in our trade and other payables to HK\$118.9 million as of December 31, 2010 from HK\$69.2 million as of December 31, 2009 was primarily attributable to the increase in payables to Shenzhen Jialinyuan and the increase in other payables relating to the sub-contracting work for Yonghe Haitao Treatment Facility (Phase I) and Huaihua Tianyuan Treatment Facility (Phase I), which was completed in 2010.

As of December 31, 2010, the amount of payables to related parties was HK\$77.1 million, which primarily consisted of: (i) an amount of HK\$58.1 million primarily due to Mr. Tsui, our Controlling Shareholder. This amount mainly represented advances by Mr. Tsui to Xi Zhou Enterprises in 2003, which in turn used such amount as capital injection into Guangzhou Kaizhou and Guangzhou Xintao, as well as advances by the Controlling Shareholder to the Company in 2010 for expenses relating to the Global Offering; and (ii) an amount of HK\$12.3 million due to Shenzhen Jialinyuan, a shareholder of Huaihua Tianyuan. This amount was advanced by Shenzhen Jialinyuan for the construction of Huaihua Tianyuan Treatment Facility (Phase I).

As of March 31, 2011, the amount of payables to related parties was HK\$70.6 million, which primarily consisted of: (i) an amount of HK\$58.2 million primarily due to Mr. Tsui, our Controlling Shareholder. This amount mainly represented advances by Mr. Tsui to Xi Zhou Enterprises in 2003, which in turn used such amount as capital injection into Guangzhou Kaizhou and Guangzhou Xintao, as well as advances by the Controlling Shareholder to the Company in 2010 for expenses relating to the Global Offering; and (ii) an amount of HK\$12.4 million due to Shenzhen Jialinyuan, a shareholder of Huaihua Tianyuan. This amount was advanced by Shenzhen Jialinyuan for the construction of Huaihua Tianyuan Treatment Facility (Phase I).

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Our trade payables turnover days were 28.5 days, 73.2 days, 74.0 days and 35.6 days in 2008, 2009 and 2010 and the three months ended March 31, 2011, respectively. The turnover days for our trade payables were calculated as the ending trade payables for the period, divided by the cost of sales (excluding costs relating to the construction services, direct labor costs and depreciation) in the period, multiplied by 365 days for a one-year period (or, for the three months ended March 31, 2011, multiplied by 90 days). The increase in our average trade payables turnover days from 28.5 days in 2008 to 73.2 days in 2009 was primarily due to an increase in volume of purchases which was related to the increase in our turnover. Our business growth provided us with greater flexibility to negotiate with our suppliers for longer credit terms based on our past good credit history and increased purchase volume. The trade payables turnover days for the years ended December 31, 2009 and 2010 remained relatively stable. The decrease in our average trade payables turnover days from 74.0 days in 2010 to 35.6 days for the three months ended March 31, 2011 was primarily attributable to the earlier payment in view of strong cashflow and to maintain good relationships with respective suppliers.

The credit period granted by our suppliers generally ranges from 30 to 90 days.

The following table sets forth the aging analysis of our trade payables as of the dates indicated:

	As of December 31,			As of March 31,
	2008	2009	2010	2011
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Due within one month or on demand	1,154	3,554	4,508	4,625
Due after one month but within three months	449	1,520	4,918	1,220
Due after three months but within six months	34	54	21	491
Total	<u>1,637</u>	<u>5,128</u>	<u>9,447</u>	<u>6,336</u>

As of May 31, 2011, approximately 75.1% of our trade payables as of March 31, 2011 had been settled. In addition, as of March 31, 2011, approximately 7.7% of our trade payables was due after three months.

INDEBTEDNESS

Loans and Borrowings

The following table sets forth our outstanding loans and borrowings as of December 31, 2008, 2009 and 2010 and as of March 31 and April 30, 2011, respectively:

	As of December 31,			As of March 31,	As of April 30,
	2008	2009	2010	2011	2011
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Bank Loan					(unaudited)
— current bank borrowings	37,646	13,628	17,644	19,613	19,751
— non-current bank borrowings	245,830	237,020	301,658	301,881	303,563
Total	<u>283,476</u>	<u>250,648</u>	<u>319,302</u>	<u>321,494</u>	<u>323,314</u>

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Our long-term borrowings are at various rates linked to the long-term lending rates published by the PBOC. The benchmark one-year bank lending rate published by the PBOC as of the year ended December 31, 2008, 2009 and 2010 and the three months ended March 31, 2011 was 5.31%, 5.31%, 5.81% and 6.06%, respectively. Our bank loans carried interest rates of 6.048%, 5.472%, 5.662% to 5.940% and 5.662% to 6.600% as of December 31, 2008, 2009, 2010 and March 31, 2011, respectively.

As of December 31, 2008, 2009 and 2010, all of our loans and borrowings were secured and guaranteed by the charge rights of industrial water supply turnover generated from Guangzhou Kaizhou Water Supply Facility and the charge rights of wastewater treatment turnover generated from Guangzhou Xintao Wastewater Treatment Facility and Yonghe Haitao Treatment Facility (Phase I), our non-current assets, certain independent third parties' non-current assets and our related parties' non-current assets. All of the securities provided by our related parties and independent third parties had been released as of the Latest Practicable Date.

The table below sets forth the maturity profiles of our bank and other borrowings as of the dates indicated:

	As of December 31,			As of March 31,	As of April 30,
	2008	2009	2010	2011	2011
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
					(unaudited)
Bank Loan					
Within 1 year or on demand.	37,646	13,628	17,644	19,613	19,751
Sub-total	<u>37,646</u>	<u>13,628</u>	<u>17,644</u>	<u>19,613</u>	<u>19,751</u>
After 1 year but within 2 years . .	34,471	13,628	19,414	19,613	19,751
After 2 years but within 5 years .	134,254	223,392	227,354	228,607	230,225
After 5 years	77,105	—	54,890	53,661	53,587
Sub-total	<u>245,830</u>	<u>237,020</u>	<u>301,658</u>	<u>301,881</u>	<u>303,563</u>
Total	<u>283,476</u>	<u>250,648</u>	<u>319,302</u>	<u>321,494</u>	<u>323,314</u>

As of April 30, 2011, our total amount of utilized bank loans was HK\$323.3 million, and we had no unutilized banking facilities.

Our gearing ratio, as calculated by dividing our total borrowings by our total assets, was 67.1%, 53.8%, 44.6%, 50.0% and 57.6% as of December 31, 2008, 2009 and 2010, March 31, 2011 and April 30, 2011, respectively. The gearing ratio decreased from 67.1% as of December 31, 2008 to 53.8% as of December 31, 2009, primarily due to a decrease in bank borrowings in relation to repayment of bank loan of HK\$33.3 million while total assets increased from HK\$422.4 million as of December 31, 2008 to HK\$466.0 million as of December 31, 2009. Our gearing ratio decreased from 53.8% as of December 31, 2009 to 44.6% as of December 31, 2010, primarily due to the substantial increase in total assets in 2010 from HK\$466.0 million as of December 31, 2009 to HK\$715.4 million as of December 31, 2010, partially offset by an increase in the amount of bank borrowings from HK\$250.6 million as of December 31, 2009 to HK\$319.3 million as of December 31, 2010. Our gearing ratio increased from 44.6% as of December 31, 2010 to 50.0% as of March 31, 2011, primarily due to dividends declared and paid in March 2011 of HK\$95.0 million. Therefore, the assets base became

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smaller for the purpose of calculating gearing ratio. Our gearing ratio increased from 50.0% as of March 31, 2011 to 57.6% as of April 30, 2011, primarily due to dividends further declared and paid in April 2011 of HK\$93.0 million. Therefore, the assets base became smaller for the purpose of calculating gearing ratio.

On May 31, 2011, Xi Zhou Enterprises entered into a loan agreement with Emperor Glory Investments Limited (“Emperor Glory”), a company incorporated in the BVI on May 13, 2011 and an independent third party. Pursuant to the loan agreement, Emperor Glory agreed to lend HK\$35.0 million to Xi Zhou Enterprises at an interest rate of 10.0%, with a maturity of 18 months following the date on which the loan is drawn. The majority of the proceeds from this loan were used to repay amounts due to Mr. Tsui.

Except as disclosed above, our Directors have confirmed that there has been no other material adverse change in indebtedness since the indebtedness statement date.

During the Track Record Period and up to the Latest Practicable Date, except as disclosed above in “— Loans and Borrowings,” we did not have any outstanding loan capital issued or agree to be issued, bank overdrafts, loans, debt securities or other similar indebtedness, liabilities under acceptance (other than normal trade bills) or acceptance credits, debentures, mortgages, charges, finance leases, hire purchase commitments, guarantees or other material contingent liabilities.

CAPITAL EXPENDITURES

Historical Capital Expenditures

Our major capital expenditures consist primarily of expenditures to acquire land use rights, construct wastewater treatment facilities for BOT projects and purchase property, plant and equipment. During the years ended December 31, 2008, 2009 and 2010 and the three months ended March 31, 2011, our capital expenditures amounted to HK\$12.9 million, HK\$11.2 million, HK\$131.0 million and HK\$52.2 million, respectively. These capital expenditures were funded by bank borrowings, funds generated from our operating activities and capital contributions from our shareholders.

Planned Capital Expenditures

Our planned capital expenditures for the year ending December 31, 2011 are HK\$449.3 million. Our planned capital expenditures primarily relate to land transfer fees, construction, purchases of property, plant and equipment as well as R&D expenditure. We plan to fund our future capital expenditures with cash inflows from operating activities, bank borrowings and net proceeds from the Global Offering. Please refer to the section headed “Future Plans and Use of Proceeds” in this prospectus for additional information.

Our actual capital expenditures may differ from the amounts set out above due to various factors, including our future cash flows, results of operations and financial condition, changes in China and the world economy, the availability of financing on terms acceptable to us, technical or other problems in obtaining or installing equipment, changes in the regulatory environment in China and other factors. We may also pursue expansion through internal development, acquisitions of existing operations, investments in other businesses, or joint ventures with third parties, which may cause our capital expenditures to increase.

CONTRACTUAL OBLIGATIONS

Capital Commitments

As of March 31, 2011, our total capital commitments outstanding in relation to our property, plant and equipment were HK\$149.9 million, of which the capital commitment for property, plant and

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equipment that has been contracted for, and that has been authorized but not contracted for amounted to HK\$7.4 million and HK\$142.5 million, respectively. We intend to fund the capital commitments as of March 31, 2011 with net proceeds from the Global Offering and cash flows generated from operating activities and bank borrowings.

Off-Balance Sheet Commitments and Arrangement

We have not entered into any financial guarantees or other commitments to guarantee the payment obligations of any third parties. We have not entered into any derivative contracts that are indexed to our Shares and classified as shareholder's equity, or that are not reflected in our financial information. We do not have any variable interests in any unconsolidated entity that provides financing, liquidity or credit support to us, or engages in leasing, hedging or research and development services with us.

RELATED PARTY TRANSACTIONS

Our Directors have confirmed that during the Track Record Period the terms of the related party transactions (including recurring and non-recurring transactions) were conducted based on normal commercial terms and were no less favorable to us than terms available to or from independent third parties.

MARKET RISKS

In the normal course of business, we are exposed to various types of market risks, including the following:

Commodities Risk

We are exposed to fluctuations in the prices of raw materials used in constructing our treatment facilities, such as steel, aluminum and copper, other base metals and cements, as well as the raw materials we use in our wastewater treatment and industrial water supply process such as sulfuric acid (硫酸), potassium dihydrogen phosphate (磷酸二氫鉀), poly aluminum chloride (聚氯化鋁), polyacrylamide (聚丙烯醯胺), ferrous sulfate (硫酸亞鐵), urea (尿素), sodium chlorate (氯酸鈉) and hydrochloric acid (鹽酸). We currently do not hedge against commodities risk, which we believe is in line with the PRC wastewater treatment and industrial water supply services industry practice. We purchase most of our raw materials at market prices and such purchase costs are generally accounted for as part of the cost of sales. Accordingly, rising prices of raw materials, to the extent that we cannot pass on such increases to our customers, could adversely affect our financial performance. For further details, please refer to the section headed "Risk Factors — Risks Relating to Our Business — We are dependent on third parties for the supply of equipment and raw materials" in this prospectus.

Interest Rate Risk

We are exposed to interest rate risks, primarily relating to our long-term borrowings. Our long-term borrowings are at various rates linked to the long-term lending rates published by the PBOC. Upward fluctuations in the lending rate published by the PBOC may increase the cost of our financing and adversely affect our turnover and profits. Fluctuations in the lending rate can also lead to significant fluctuations in the fair values of our debt obligations. The benchmark one-year bank lending rate published by the PBOC as of December 31, 2008, 2009 and 2010 was 5.31%, 5.31% and 5.81%, respectively, and 6.06% as of March 31, 2011. Our bank loans carried effective interest rates of 6.048%, 5.472% and a range from 5.662% to 5.940% as of December 31, 2008, 2009 and 2010, respectively, and a range from 5.662% to 6.600% as of March 31, 2011. We currently do not use any derivative instruments to hedge our interest rate risk. Please refer to Note 25 to the Accountants' Report included in Appendix I of this prospectus for further details, including a sensitivity analysis with respect to our interest rate risks.

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Credit Risk

We are exposed to credit risks primarily arising from trade and other receivables and gross amounts due from customers for contract work. We monitor our exposure to these credit risks on an ongoing basis. Trade receivables represents receivables in respect of turnover from the supply of industrial water and wastewater treatment services, which are typically settled on a monthly basis. In addition, we have gross amounts due from customers for contract work in respect of our BOT arrangements. Our trade receivables are usually due within 30 days from the date of billing and the current portion of the gross amounts due from customers is the portion to be paid within the next 12 months. We review the recoverable amount of each individual trade debt at the end of the reporting period to assess whether any impairment losses should be made. In this regard, our Directors seek to reduce our credit risk.

Trade and other receivable and gross amount due from our five largest customers for contract work in aggregate accounted for approximately 1.1%, 6.7% and 33.7% of the total carrying amounts of trade and other receivables and gross amounts due from customers for contract work, as of December 31, 2008, 2009 and 2010, respectively, and 23.1% as of March 31, 2011. For our gross amounts due from customers for contract work in respect of our BOT projects, we believe the credit risk is lower in general because the counterparties are local government authorities in China.

We currently have a certain amount of receivables from related parties. However, we intend to settle such receivables before Listing and do not consider the credit risks of the involved related parties to have a significant impact on our business.

Foreign Exchange Rate Risk

Our functional currency is Renminbi as most of our transactions are settled in Renminbi. However, our combined financial information is presented in Hong Kong dollar. Any appreciation or depreciation of Hong Kong dollar against Renminbi will affect our financial position and be reflected in the exchange reserve.

In addition, conversion of Renminbi to foreign currencies is subject to rules and regulations of foreign exchange control promulgated by the PRC Government. On July 21, 2005, the PRC government changed its policy of pegging the value of the Renminbi to the U.S. dollar. Under this policy, Renminbi is permitted to fluctuate within a narrow and managed band against a basket of certain foreign currencies. The PRC Government may take further actions that could cause future exchange rates to vary significantly from current or historical exchange rates.

Depreciation of the Renminbi would adversely affect the value of any dividends we pay to our shareholders outside China. Appreciation of the Renminbi, however, would adversely affect the value of the proceeds we will receive from the Global Offering or any capital contribution in foreign currency if they are not converted to Renminbi in a timely manner. Historically, we have not used any financial instruments to hedge against foreign exchange risks.

Inflation

During the last month of 2008, 2009 and 2010 and the month of March 2011, the year-on-year inflation rate in China as measured by the consumer price index was 5.9%, -0.7%, 3.3% and 5.0%, respectively, according to the National Bureau of Statistics of China. We have not been materially and adversely affected by these inflationary pressures. However, if the consumer price index continues to rise and if we are not able to increase the prices of our services in China, our financial condition will be materially and adversely affected.

DIVIDENDS

Subject to the Companies Law, we may declare final dividends in any currency through a general shareholders' meeting, but no dividend shall be declared in excess of the amount recommended by our

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Board. Our Articles of Association provide that dividends may be declared and paid out of our profits, realized or unrealized, or from any reserves set aside from profits which our Directors determine are no longer needed. With the sanction of an ordinary resolution passed by our shareholders, dividends may also be declared and paid out of our share premium account or any other fund or account which can be authorized for this purpose in accordance with the Companies Law.

We currently do not have a formal dividend policy. The declaration of dividends is subject to the discretion of our Directors, and the amounts of dividends actually declared and paid will also depend upon our operating results, financial condition, capital requirements, interests of our shareholders and other factors which our Board may deem relevant.

Our future dividend payments will also depend upon the availability of dividends received from our operating subsidiaries in China. PRC law requires that dividends be paid only out of the net profit calculated according to PRC accounting principles, which differ in certain aspects from the generally accepted accounting principles in other jurisdictions including HKFRS. PRC law also requires a foreign-invested enterprise to transfer at least 10% of its net profit (after offsetting prior years' losses) to a statutory reserve until the reserve balance reaches 50% of the registered capital of the enterprise. The transfer to its reserve must be made before distribution of dividends to its equity holders. Distributions from our PRC operating subsidiaries may also be restricted if they incur debt or losses or due to PRC law restricting payments of dividends to us or in accordance with any restrictive covenants in bank credit facilities, convertible bond instrument or other agreements that we or our PRC operating subsidiaries may enter into in the future. Pursuant to a loan agreement dated March 16, 2010 entered into with ICBC, Guangzhou Haitao is currently restricted by certain covenants from making distributions to its shareholders that include restricting us as the borrower from paying dividends until the loan is fully repaid, and giving repayment priority to the bank loan over the debt owed by us to our shareholders. These restrictions may limit the funds available to pay dividends to our shareholders.

For information relating to the restrictions on the payment of dividends by our PRC subsidiaries and taxes payable on dividends, please refer to the sections headed "Risk Factors — Risks Relating to Business Operations in the PRC — Fluctuations in the value of Renminbi may adversely affect our business and the value of distributions by our PRC subsidiaries" and "Risk Factors — Risks Relating to Business Operations in the PRC — We rely principally on dividends paid by our subsidiaries to fund any cash and financing requirements we may have, and any limitation on the ability of our PRC subsidiaries to pay dividends to us could have a material adverse effect on our ability to conduct our business."

We did not declare any dividends for the years ended December 31, 2008, 2009 and 2010. For the three months ended March 31, 2011, Xi Zhou Enterprises declared and paid a dividend of HK\$95.0 million to its then equity holder, Mr. Tsui. All dividends declared during this period represented dividends attributable to the previous financial years. Xi Zhou Enterprises further declared and paid dividends of HK\$87.0 million, HK\$6.0 million and HK\$19.5 million on April 1, 2011, April 19, 2011 and May 30, 2011, respectively, to its then equity holder, Mr. Tsui. The dividends declared represented dividends attributable to the previous financial years and the three months ended March 31, 2011. Our Board currently intends, subject to the above limitations, and in the absence of any circumstances which might reduce the amount of available distributable reserves, whether by losses or otherwise, to distribute to our shareholders approximately 20% of any distributable profit in respect of the year ending December 31, 2011 and each year thereafter. There is, however, no assurance that dividends of such amount or any amount will be declared or distributed each year or in any year.

DISTRIBUTABLE RESERVES

Under the Companies Law, we may pay dividends out of our profit or our share premium account in accordance with the provisions of our Articles of Association and provided that immediately following the date on which the dividend is proposed to be distributed, we will be able to pay our debts as and when they fall due in the ordinary course of business. The aggregate amount of our distributable reserves as of March 31, 2011 was HK\$137.2 million.

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UNAUDITED PRO FORMA ADJUSTED NET TANGIBLE ASSETS

The following information relating to our unaudited pro forma adjusted net tangible assets is for illustration purposes only, and is set out here to illustrate the effect of the Global Offering on the net tangible assets of the Group as of March 31, 2011 as if it had been taken place on March 31, 2011.

Because the following data is for illustration purposes, it may not give a true picture of the net tangible assets of the Group following the Global Offering. It is based on the combined net assets as of March 31, 2011 as shown in the Accountants' Report in Appendix I to this prospectus, and adjusted as described below.

	Combined Net Assets of the Group as of March 31, 2011 ⁽¹⁾	Less: Intangible Assets as of March 31, 2011	Estimated Net Proceeds From the Global Offering ⁽²⁾	Unaudited Pro Forma Adjusted Net Tangible Assets of the Group ⁽³⁾	Unaudited Pro Forma Adjusted Net Tangible Per Share ⁽⁴⁾
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$
Based on an Offer Price of HK\$2.38 per Share	197,627	9,171	582,717	771,173	0.66
Based on an Offer Price of HK\$1.68 per Share	197,627	9,171	403,994	592,450	0.51

Notes:

- (1) The combined net assets of our Group as of March 31, 2011 is extracted from the Accountants' Report in Appendix I to this prospectus, which has taken into account the dividends of HK\$95.0 million of dividend.
- (2) The estimated net proceeds from the Global Offering are based on the Offer Price of HK\$1.68 and HK\$2.38 per Share respectively and take no account of any Shares which may be issued pursuant to the Over-allotment Option. If the Over-allotment Option is exercised in full, the adjusted net tangible asset value per Share will be increased, while the earnings per Share will be diluted correspondingly.
- (3) Details of the valuations of our properties as of April 30, 2011 are set out in the Property Valuation Report in Appendix IV to this prospectus. The revaluation surplus or deficit of properties included in buildings held for own use and land-use rights was not incorporated in our financial information for the year ended March 31, 2011. If such revaluation surplus were to be incorporated in our financial information for the year ended March 31, 2011, the annual depreciation and amortization charges would increase by approximately HK\$2.7 million.
- (4) The unaudited pro forma adjusted net tangible assets per Share is arrived at after the adjustment referred to in the preceding paragraphs and on the basis that 1,164,000,000 Shares were in issue (assuming the Shares in issue at the date of this prospectus pursuant to the Capitalization Issue and Global Offering but without taking into account any Shares which may be issued upon exercise of the Over-allotment Option).

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PROFIT FORECAST FOR THE YEAR ENDING DECEMBER 31, 2011

We believe that, in the absence of unforeseen circumstances and on the bases and assumptions set out in Appendix II to this prospectus, our forecast consolidated profit attributable to the equity holders of the Company for the year ending December 31, 2011 is set out below:

Forecast consolidated profit attributable to equity holders of the Company ⁽¹⁾⁽²⁾⁽³⁾	Not less than HK\$200 million
Pro forma forecast earnings per share ⁽⁴⁾	Not less than HK\$0.17

Notes:

- (1) The bases and assumptions in preparing the forecast consolidated profit attributable to equity holders of the Company for the year ending December 31, 2011 are summarized in Appendix III to this prospectus.
- (2) Our business and operations have in the past been, and will continue to be, affected by a number of factors. For further details of such factors, please refer to the sections headed “Forward-Looking Statements”, “Risk Factors” and “Financial Information — Factors Affecting Our Results of Operations” in this prospectus.
- (3) The Directors believe that the profit forecast for the year ending December 31, 2011 is fair and reasonable after due consideration of the facts and recent developments of the Group including: (i) an increase in the average daily volume of wastewater treated and industrial water supplied for the month of March 2011 compared with that of the month of December 2010; (ii) an increased number of customers for Guangzhou Xintao (from 26 in December 2010 to 30 in March 2011) and Guangzhou Kaizhou (from 22 in December 2010 to 24 in March 2011) and an increase in demand from each individual customer; (iii) an increase in the average tariff of wastewater treated due to an increase in the proportion of treated wastewater with higher margins and an expected tariff increase in July 2011 for Guangzhou Xinzhou Industrial Park; (iv) the expected construction revenue for 2011 in relation to the construction of Yonghe Haitao Treatment Facility (Phase II) in July 2011 and the Huaihua Tianyuan Facility (Phase II) in July 2011, compared to the first half of 2011 where we did not have any profits from BOT construction since the planned construction of the facilities had not yet commenced; and (v) the expected commencement of heating services in the second half of 2011.
- (4) The calculations of pro forma forecast earnings per Share do not take into account any Shares which may be issued on the exercise of any options and which may be granted pursuant to the Share Option Scheme. The calculation of the forecast earnings per Share on a pro forma basis is based on the forecast consolidated profit attributable to the equity holders of the Company for the year ending December 31, 2011 and assuming that the Global Offering was completed on January 1, 2011 and a total of 1,164,000,000 Shares were in issue throughout such year.

PROPERTY INTERESTS AND PROPERTY VALUATION

DTZ, an independent property valuer, has valued our property interests as of April 30, 2011. The full text of the letter, summary of valuation and valuation certificates with regard to such property interests are set out in Appendix IV to this prospectus.

The table below sets forth the reconciliation between the net book value of property interests as of March 31, 2011 and the Property Valuation in Appendix IV to this prospectus as of April 30, 2011:

	<u>HK\$’000</u>
Net book value as of March 31, 2011	
— Buildings included in property, plant and equipment	1,158
— Land use rights	8,213
Movements for the one month ended April 30, 2011	
Add: Net addition during the period	—
Transaction adjustments	66
Less: Depreciation and amortization during the period	27
Net book value as of April 30, 2011 as set out in the Property Valuation in Appendix IV to this prospectus	9,410
Valuation surplus, before corporate income tax	84,421
Valuation as of April 30, 2011 ⁽¹⁾⁽²⁾ as set out in the Property Valuation in Appendix IV to this prospectus	93,831

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- (1) The property interests of our Group are valued by DTZ and described in Appendix IV to this prospectus.
 - (2) The translation of Renminbi into Hong Kong dollars has been made at the rate of RMB0.8364 to HK\$1.00, the exchange rate set by the PBOC for foreign exchange transactions prevailing on April 29, 2011, since no exchange rate was set by PBOC on April 30, 2011.

NO MATERIAL ADVERSE CHANGE

Our Directors confirm that, as of the date of this prospectus, there has been no material adverse change in our financial or trading position since March 31, 2011, being the date at which our latest audited financial information was prepared.

DISCLOSURE REQUIRED UNDER THE LISTING RULES

Our Directors confirm that as of the date of this prospectus, they are not aware of any circumstances that would give rise to a disclosure requirement under Rules 13.13 to 13.19 of the Listing Rules.

FUTURE PLANS AND USE OF PROCEEDS

FUTURE PLANS

Please refer to the section headed “Business — Business Strategies” in this prospectus for a detailed description of our future plans.

USE OF PROCEEDS

The net proceeds of the Global Offering we expect to receive (after deduction of underwriting fees and estimated expenses payable by us in relation to the Global Offering and assuming that the Over-allotment Option is not exercised) are estimated to be approximately HK\$404.0 million, assuming an Offer Price of HK\$1.68 per Share, or HK\$582.7 million, assuming an Offer Price of HK\$2.38 per Share (or if the Over-allotment Option is exercised in full, HK\$431.1 million, assuming an Offer Price of HK\$1.68 per Share, or HK\$621.1 million, assuming an Offer Price of HK\$2.38 per Share). The Sale Shares will be sold by the Selling Shareholder and we will not receive any proceeds from the sale of the Sale Shares.

Assuming the Over-allotment Option is not exercised and assuming an Offer Price of HK\$2.03 per Offer Share, being the midpoint of the stated Offer Price range of HK\$1.68 to HK\$2.38 per Offer Share, the net proceeds of the Global Offering to us would be approximately HK\$493.4 million which we presently plan to use as follows:

- Approximately 53%, or approximately HK\$261.1 million, to be used for construction and operation of wastewater treatment and industrial water supply facilities;
- Approximately 15%, or approximately HK\$74.0 million, to be used for potential acquisitions relating to the wastewater treatment and industrial water supply industry. As of the Latest Practicable Date, we have not identified any targets nor entered into any letters of intent or agreements in relation to any potential acquisition;
- Approximately 12%, or approximately HK\$59.2 million, to be used in connection with our waste-to-energy project with Guangri Group;
- Approximately 10%, or approximately HK\$49.3 million, to be used for working capital and other general corporate purposes;
- Approximately 7%, or approximately HK\$35.0 million, to be used for repayment of existing borrowings; and
- Approximately 3%, or approximately HK\$14.8 million, to be used for improving our research and development capability and for expansion into third party sludge treatment business.

With respect to our existing bank borrowings, we had used certain of such proceeds for the construction of Yonghe Haitao Treatment Facility (Phase I), including the purchase cost of plant and machinery for such facility. Such loan proceeds were derived from the loan entered into by Guangzhou Haitao on March 16, 2010, with a loan duration of 15 years and an interest rate of 5.94% at inception. As of April 30, 2011, the outstanding loan amount of the Group was RMB270.4 million.

FUTURE PLANS AND USE OF PROCEEDS

The table below sets forth the estimated investment amount to be incurred and the IPO proceeds allocated to the construction and operation of our proposed Yonghe Haitao Treatment Facility (Phase II), Huaihua Tianyuan Treatment Facility (Phase II), Qingyuan Jingu Treatment Facility and Sichuan Guangyuan Industrial Park Treatment Facility (Phase I):

Project	Estimated investment amount to be incurred	IPO proceeds allocated
	HK\$ million	HK\$ million
Yonghe Haitao Treatment Facility (Phase II) ⁽¹⁾	118.7	61.0
Huaihua Tianyuan Treatment Facility (Phase II) ⁽¹⁾	53.4	39.0
Qingyuan Jingu Treatment Facility ⁽¹⁾	71.2	36.6
Sichuan Guangyuan Industrial Park Treatment Facility (Phase I) ⁽¹⁾	246.9	122.0
Overall contingency expenses ⁽¹⁾	0.7	2.5
	<u>490.9</u>	<u>261.1</u>

(1) As of the Latest Practicable Date, there has not been any actual investment made in these relevant projects.

Through the development of these additional facilities, we intend to continue in expanding our operations and providing wastewater treatment services to customers located in areas beyond Guangdong province. The additional facilities will also allow us to continue expanding our service to customers in industries other than the textile and municipal industries. For instance, the development of our Huaihua Tianyuan Treatment Facility (Phase II) will expand our capacity to serve the pulp and paper-making industry as well as the food and beverage industry.

We estimate the Selling Shareholder will receive gross proceeds of approximately HK\$54.8 million, without deducting the underwriting commissions and fees payable by the Selling Shareholder in respect of the Sale Shares (assuming an Offer Price of HK\$2.03 per Offer Share, being the mid-point of our indicative Offer Price range) from the Global Offering, assuming the Over-allotment Option is not exercised.

The additional net proceeds that we will receive if the Over-allotment Option is exercised in full will be approximately HK\$32.7 million (assuming the Offer Price at the mid-point of the stated Offer Price range of HK\$2.03). If the Over-allotment Option is exercised in full, our Directors intend to apply all the additional net proceeds to increase our use of proceeds proportionately as earmarked.

If the Offer Price is fixed at HK\$2.38, being the high end of the stated Offer Price range, our net proceeds will be (i) increased by approximately HK\$89.4 million, assuming the Over-allotment Option is not exercised; and (ii) increased by approximately HK\$95.0 million, assuming the Over-allotment Option is exercised in full. Our Directors currently intend to use such additional proceeds to increase our use of proceeds proportionately as earmarked.

If the Offer Price is fixed at HK\$1.68, being the low end of the stated Offer Price range, our net proceeds will instead be (i) decreased by approximately HK\$89.4 million, assuming the Over-allotment Option is not exercised; and (ii) decreased by approximately HK\$95.0 million, assuming the Over-allotment Option is exercised in full. Our Directors currently intend to reduce our use of proceeds proportionately as earmarked.

To the extent that the net proceeds to us from the Global Offering are not immediately applied to the above purposes, we will deposit the net proceeds into short-term demand deposits and/or money market instruments.

UNDERWRITING

HONG KONG UNDERWRITER

The Hong Kong Public Offering shall be fully underwritten by the Hong Kong Underwriter, subject to the Offer Price being agreed upon between the Company and the Sole Global Coordinator (on behalf of the Underwriters). The Hong Kong Underwriter is Citi.

UNDERWRITING ARRANGEMENTS AND EXPENSES

Hong Kong Public Offering

Hong Kong Underwriting Agreement

The Hong Kong Underwriting Agreement was entered into on June 23, 2011. Pursuant to the Hong Kong Underwriting Agreement, our Company is offering the Hong Kong Offer Shares for subscription by the public in Hong Kong at the Offer Price on and subject to the terms and conditions of this prospectus and the Application Forms.

Subject to the Listing Committee granting listing of, and permission to deal in, the Shares in issue and the Shares to be issued as mentioned herein (including any additional Shares which may be made available pursuant to the exercise of the Over-allotment Option and Shares which may fall to be issued on the exercise of the options which may be granted under the Share Option Scheme) and to certain other conditions set forth in the Hong Kong Underwriting Agreement (including the Sole Global Coordinator (on behalf of the Underwriters) and our Company agreeing the Offer Price), the Hong Kong Underwriter has agreed to subscribe or procure subscribers for the Hong Kong Offer Shares now being offered which are not taken up under the Hong Kong Public Offering on the terms and conditions of this prospectus, the Application Forms and the Hong Kong Underwriting Agreement.

The Hong Kong Underwriting Agreement is conditional on and subject to the International Underwriting Agreement having been signed and becoming unconditional and not having been terminated in accordance with its terms.

For applicants applying under the Hong Kong Public Offering, this prospectus and the Application Forms contain the terms and conditions of the Hong Kong Public Offering. The International Offering will be fully underwritten, subject to the Offer Price being agreed upon between the Company and the Sole Global Coordinator (on behalf of the Underwriters), by the International Underwriters. If, for any reason, the Offer Price is not agreed between us and the Sole Global Coordinator (on behalf of the Underwriters) by July 6, 2011, the Global Offering will not proceed and will lapse.

Grounds for termination

The obligations of the Hong Kong Underwriter to subscribe or procure subscribers for the Hong Kong Offer Shares under the Hong Kong Underwriting Agreement are subject to termination, if, at any time prior to 8:00 a.m. on the Listing Date:

- (a) there develops, occurs, exists or comes into force:
 - (i) any new law or regulation or any change in existing law or regulation, or any change in the interpretation or application thereof by any court or other competent authority in or affecting Hong Kong, the PRC, the Cayman Islands, the United States, Canada, the United Kingdom, Japan, Singapore or any other relevant jurisdiction (each a “**Relevant Jurisdiction**”); or
 - (ii) any change or development involving a prospective change or development, or any event or series of events resulting in or representing a change or development, or prospective change or development, in local, national, regional or international

UNDERWRITING

financial, political, military, industrial, economic, currency market, fiscal or regulatory or market conditions (including, without limitation, conditions in stock and bond markets, money and foreign exchange markets and inter-bank markets, or any monetary or trading settlement system or matters and/or disaster (including, without limitation a change in the system under which the value of the Hong Kong currency is linked to that of the currency of the United States or a devaluation of the Hong Kong dollars or an appreciation of the Renminbi against the currency of any of the Relevant Jurisdictions; or

- (iii) any change or development in the conditions of local, national or international equity securities or other financial markets; or
- (iv) any event or series of events in the nature of force majeure (including, without limitation, acts of government, strikes, lock-outs, fire, explosion, flooding, epidemic, outbreak of an infectious disease, civil commotion, acts of war, any local, national, regional or international outbreak or escalation of hostilities (whether or not war is declared), acts of terrorism (whether or not responsibility has been claimed), declaration of a national or international emergency or war, riot, public disorder, economic sanctions or acts of God) in or affecting any Relevant Jurisdiction; or
- (v) any local, national, regional or international outbreak or escalation of hostilities (whether or not war is or has been declared) or other state of emergency or calamity or crisis in or any Relevant Jurisdiction; or
- (vi) (A) any suspension or limitation on trading in shares or securities generally on the Hong Kong Stock Exchange, the New York Stock Exchange, the Nasdaq National Market, the London Stock Exchange, the Tokyo Stock Exchange or (B) a general moratorium on commercial banking activities in New York, London, Cayman Islands, Hong Kong, Japan or the PRC declared by the relevant authorities, or a material disruption in commercial banking activities or foreign exchange trading or securities settlement or clearance services in or affecting any Relevant Jurisdiction; or
- (vii) any change or development or prospective material adverse change in taxation or exchange controls, currency exchange rates or foreign investment regulations in any Relevant Jurisdiction materially adversely affecting an investment in the Shares;
- (viii) any change or development involving a prospective change on the condition, financial or otherwise, or in the earnings, business affairs, business prospects or trading position of the Group; or
- (ix) any executive 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 commencement by any regulatory body of any public action against any executive Director in his or her capacity as such or an announcement by any regulatory body that it intends to take any such action; or
- (xi) a material contravention by any member of the Group of the Companies Ordinance or companies law of the Cayman Islands or the Listing Rules; or
- (xii) other than with the approval of the Sole Global Coordinator, the issue or requirement to issue by the Company of a supplementary prospectus, Application Form, preliminary or final offering circular pursuant to the Companies Ordinance or the Listing Rules in circumstances where the matter to be disclosed is, in the sole opinion of the Sole Global Coordinator, adverse to the marketing for or implementation of the Global Offering; or

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- (xiii) any change or development involving an adverse change of any of the risks set out in the section headed “Risk Factors” in this prospectus; or
- (xiv) a petition is presented for the winding-up or liquidation of any member of the Group or any 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 any member of the Group or a provisional liquidator, receiver or manager is appointed over all or part of the assets or undertaking of any member of the Group or anything analogous thereto occurs in respect of any member of the Group;

and which, in any such case and in the sole opinion of the Sole Global Coordinator (for themselves and on behalf of the Hong Kong Underwriter),

- (A) is or may or will be or is likely to be materially adverse to, or prejudicially affect, the general affairs or the business or financial or trading or other condition or prospects of the Company and its subsidiaries taken as a whole; or
 - (B) has or may have or will have or is likely to have a material adverse effect on the success of the Global Offering and/or make it impracticable, inexpedient or inadvisable for any part of the Hong Kong Underwriting Agreement, the Hong Kong Public Offering or the Global Offering to be performed or implemented as envisaged; or
 - (C) makes or will or is likely to make it impracticable, inexpedient or inadvisable to proceed with or to market the Hong Kong Public Offering and/or the Global Offering or the delivery of the Offer Shares on the terms and in the manner contemplated by this prospectus; or
- (b) there has come to the notice of the Sole Global Coordinator or the Hong Kong Underwriter:
- (i) that any statement contained in this prospectus, the Application Forms, the formal notice and any announcements in the agreed form issued by the Company in connection with the Hong Kong Public Offering (including any supplement or amendment thereto) was or has become untrue, incorrect or misleading, or any forecasts, estimates, expression of opinion, intention or expectation expressed in such documents are not fair and honest and based on reasonable assumptions; or
 - (ii) any matter has arisen or has been discovered which would or might, had it arisen immediately before the date of this prospectus, not having been disclosed in this prospectus, constitutes a material omission therefrom; or
 - (iii) any of the warranties given by the Company in the Hong Kong Underwriting Agreement is (or might when repeated be) being untrue or misleading or inaccurate in any material respect; or
 - (iv) any event, act or omission which gives or may give rise to any material liability of the Company pursuant to the indemnities given by the Company under the Hong Kong Underwriting Agreement; or
 - (v) any material breach of any of the obligations of the Company under the Hong Kong Underwriting Agreement; or
 - (vi) any material adverse change or prospective material adverse change in the assets, liabilities, conditions, profits, losses, business, properties, results of operations, in the financial or trading position or prospects or performance of the Company and its subsidiaries taken as a whole; or
 - (vii) any material litigation or claim being threatened or instigated against the Company or any of its subsidiaries; or
 - (viii) any of KPMG as the auditors and reporting accountants for the Company, DTZ as the property valuer in relation to the Global Offering, Conyers Dill & Pearman as the

UNDERWRITING

legal advisers of the Company on Cayman Islands law and British Virgin Islands law and GFE Law Office as the legal advisers of the Company on PRC law has withdrawn its respective consent to the issue of this prospectus with the inclusion of its reports, letters, summaries of valuations and/or legal opinions (as the case may be) and references to its name included in the form and context in which it respectively appears; or

- (ix) approval for the listing of an permission to deal in the Shares on the Hong Kong Stock Exchange is refused or not granted, other than subject to customary conditions, on or before the listing approval date, or if granted, the approval is subsequently withdrawn, qualified (other than by customary conditions) or withheld; or
- (x) the Company withdraws this prospectus and the Application Forms, or the Global Offering.

Undertakings to the Stock Exchange pursuant to the Listing Rules

By us

Pursuant to Rule 10.08 of the Listing Rules, we have undertaken to the Stock Exchange that no further Shares or securities convertible into our equity securities (whether or not of a class already listed) may be issued by us or form the subject of any agreement to such an issue by us within 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), except in certain circumstances prescribed by Rule 10.08 of the Listing Rules.

By the Controlling Shareholders

Pursuant to Rule 10.07(1), each of our Controlling Shareholders, being Keen Vast and Mr. Tsui, has undertaken to the Stock Exchange that, except pursuant to the Global Offering and the Stock Borrowing Agreement, he or it shall not and shall procure that the relevant registered holder(s) of the Shares will not:

- (a) in the period commencing on the date by reference to which disclosure of his or its shareholding in our Company is made in this prospectus and ending on the date which is six months after the Listing Date (the “**First Six-Month Period**”), dispose of, or enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances (save pursuant to a pledge of charge as security in favour of an authorised institution (as defined in the Banking Ordinance) (Chapter 155 of the Laws of Hong Kong) for a bona fide commercial loan) in respect of, any of those Shares or securities of our Company in respect of which he or it is shown by this prospectus to be the beneficial owner; and
- (b) in the period of six months commencing on the date on which the First Six-Month Period expires (the “**Second Six-Month Period**”), dispose of, or enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances (save pursuant to a pledge of charge as security in favour of an authorised institution (as defined in the Banking Ordinance) (Chapter 155 of the Laws of Hong Kong) for a bona fide commercial loan) in respect of, any of the 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 he or it would cease to be our controlling shareholder (as defined in the Listing Rules).

UNDERWRITING

Each of our Controlling Shareholders, being Keen Vast and Mr. Tsui, has also undertaken to the Stock Exchange and us that, within the period commencing on the date by reference to which disclosure of his or its shareholding in our Company is made in this prospectus and ending on the date which is 12 months from the Listing Date, he or it will:

- (a) when he or it pledges or charges any Shares or other securities of our Company beneficially owned by him or it in favor of an authorized institution (as defined in the Banking Ordinance (Chapter 155 of the Laws of Hong Kong) , immediately inform us in writing of such pledge or charge together with the number of such Shares or other securities so pledged or charged; and
- (b) when he or it receives any indications, either verbal or written, from any pledgee or chargee of any Shares or other securities of our Company pledged or charged that any of such Shares or securities will be disposed of, immediately inform us in writing of any such indications.

We will inform the Stock Exchange as soon as we have been informed of the above matters (if any) by any of Keen Vast or Mr. Tsui and disclose such matters by way of an announcement published in accordance with Rule 2.07C of the Listing Rules as soon as possible after being so informed by any of Keen Vast or Mr. Tsui.

Undertakings pursuant to the Hong Kong Underwriting Agreement

By us

We have undertaken to the Sole Global Coordinator, the Sole Sponsor and the Hong Kong Underwriter that, except as pursuant to the Global Offering, including pursuant to the exercise of the Over-allotment Option, or any share option schemes of any members of our Group, at any time after the date of the Hong Kong Underwriting Agreement up to and including the date falling six months after the Listing Date (the “**First Six-Month Period**”) and unless permitted by the Stock Exchange, we will not without the prior written consent of the Sole Global Coordinator, on behalf of the Hong Kong Underwriter, subject to the requirements set out in the Listing Rules:

- (i) offer, pledge, charge, mortgage, allot, issue, sell, contract to allot, issue or sell, sell any option or contract to purchase, purchase any option or contract to sell, grant or agree to grant any option, right or warrant to purchase or subscribe for, lend or otherwise transfer or dispose of, either directly or indirectly, conditionally or unconditionally, or repurchase, any of its share capital or other securities or any interests therein (including, but not limited to, any securities that are convertible into or exercisable or exchangeable for or that represent the right to receive such share capital or other securities or any interests therein) (the “**Interests**”);
- (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 such Interests;
- (iii) enter into any transaction with the same economic effect as any transaction described in (i) or (ii) above; or
- (iv) agree or contract to, or publicly announce any intention to enter into, any transaction described in limb (i) or (ii) above, whether any such transaction described in (i), (ii) or (iii) above is to be settled by delivery of such Interests, in cash or otherwise.

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By Keen Vast and Mr. Tsui

Each of Keen Vast and Mr. Tsui has undertaken to the Sole Global Coordinator, the Sole Sponsor, the Hong Kong Underwriter and the Company that, except as pursuant to the Global Offering, including pursuant to the exercise of the Over-allotment Option, and the Stock Borrowing Agreement or any share option schemes of any members of our Group, it/he will not and will procure that none of its/his associates (as defined in the Listing Rules) or companies controlled by it or any nominee or trustee holding in trust for it will, without the prior written consent of the Sole Global Coordinator, on behalf of the Hong Kong Underwriter, and unless in compliance with the requirements of the Listing Rules:

- (i) at any time during the First Six-Month Period: (a) offer, pledge, charge, mortgage, allot, issue, sell, contract to allot, issue or sell, sell any option or contract to purchase, purchase any option or contract to sell, grant or agree to grant any option, right or warrant to purchase or subscribe for, lend or otherwise transfer or dispose of, either directly or indirectly, conditionally or unconditionally, or repurchase, any of the share capital or other securities of the Company or any interest therein held by it or him (including, but not limited to any securities convertible into or exercisable or exchangeable for, or that represent the right to receive, any such share capital or other securities or any other interests therein (the “**Held Interests**”)); (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 such Held Interests; or (c) enter into any transaction with the same economic effect as any transaction described in (a) or (b) above; or (d) agree or contract to, or publicly announce any intention to enter into, any transaction described in limb (a) or (b) above whether any such transaction described in (a), (b) or (c) above is to be settled by delivery of such Held Interests, in cash or otherwise;
- (ii) at any time during the six months immediately after the First Six-Month Period (the “**Second Six-Month Period**”): (a) offer, pledge, charge, mortgage, allot, issue, sell, contract to allot, issue or sell, sell any option or contract to purchase, purchase any option or contract to sell, grant or agree to grant any option, right or warrant to purchase or subscribe for, lend or otherwise transfer or dispose of, either directly or indirectly, conditionally or unconditionally, or repurchase, any of its Held Interests); (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 such Held Interests; or (c) enter into any transaction with the same economic effect as any transaction described in (a) or (b) above; or (d) agree or contract to, or publicly announce any intention to enter into, any transaction described in limb (a) or (b) above whether any such transaction described in (a), (b) or (c) above is to be settled by delivery of such Held Interests, in cash or otherwise if, immediately following such transaction, he or it would cease to be a controlling shareholder (as defined in the Listing Rules) of the Company; and
- (iii) in the event of a disposal by it or him of any of its Held Interests during the Second Six-Month Period, it or he will take all steps to ensure that such a disposal will not create a disorderly or false market for the Shares or other securities of the Company.

By the Selling Shareholder, Green Prosper and Great Nation

Each of the Selling Shareholder, Green Prosper and Great Nation has undertaken to the Sole Global Coordinator, the Sole Sponsor, the Hong Kong Underwriter and the Company that, except as pursuant to the Global Offering, including pursuant to the exercise of the Over-allotment Option,

UNDERWRITING

during the First Six-Month Period, each of the Selling Shareholder, Green Prosper and Great Nation will not without the prior written consent of the Sole Global Coordinator, on behalf of the Hong Kong Underwriter, subject to the requirements set out in the Listing Rules:

- (i) offer, pledge, charge, mortgage, allot, issue, sell, contract to allot, issue or sell, sell any option or contract to purchase, purchase any option or contract to sell, grant or agree to grant any option, right or warrant to purchase or subscribe for, lend or otherwise transfer or dispose of, either directly or indirectly, conditionally or unconditionally, or repurchase, any of its Held Interests;
- (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 such Held Interests;
- (iii) enter into any transaction with the same economic effect as any transaction described in (i) or (ii) above; or
- (iv) agree or contract to, or publicly announce any intention to enter into, any transaction described in limb (i) or (ii) above, whether any such transaction described in (i), (ii) or (iii) above is to be settled by delivery of such Held Interests, in cash or otherwise.

Indemnity

We have agreed to indemnify the Hong Kong Underwriter for certain losses which they may suffer, including losses arising from their performance of their obligations under the Hong Kong Underwriting Agreement and any breach by us of the Hong Kong Underwriting Agreement.

The International Offering

In connection with the International Offering, it is expected that we will enter into the International Underwriting Agreement with the International Underwriters and the Selling Shareholder. Under the International Underwriting Agreement, subject to the conditions set forth therein, the International Underwriters would severally agree to procure purchasers for or failing which to purchase, the International Offer Shares. It is expected that the International Underwriting Agreement may be terminated on similar grounds as the Hong Kong Underwriting Agreement. Potential investors shall be reminded that in the event that the International Underwriting Agreement is not entered into, the Global Offering will not proceed.

Over-allotment Option

Under the International Underwriting Agreement, our Company and the Selling Shareholder are expected to grant to the International Underwriters, exercisable by the Sole Global Coordinator on behalf of the International Underwriters, the Over-allotment Option, exercisable within 30 days from the last day for lodging applications under the Hong Kong Public Offering (the last day for exercise of the Over-allotment Option being July 29, 2011) to require us to allot and issue up to 16,650,000 additional Shares and the Selling Shareholder to sell an additional 27,000,000 Shares, representing approximately 15% of the initial Offer Shares, at the same price per Offer Share under the International Offering, to, among other things, cover over-allocations in the International Offering, if any.

It is expected that our Controlling Shareholders will undertake to the International Underwriters not to dispose of, or enter into any agreement to dispose of, or otherwise create any options, rights, interest or encumbrances in respect of any of the Shares held by them in our Company for a period similar to such undertakings given by it pursuant to the Hong Kong Underwriting Agreement.

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Commission and Expenses

The Hong Kong Underwriter will receive an underwriting commission of 3.0% on the Offer Price of the Hong Kong Offer Shares initially offered under the Hong Kong Public Offering, out of which they will pay any sub-underwriting commission. We and the Selling Shareholder will pay the International Underwriters an underwriting commission of 3.0% on the Offer Price of the International Offer Shares offered under the International Offering. In addition, we may pay to the Sole Global Coordinator (for its account only) a discretionary incentive fee of up to 1.0% of the Offer Price multiplied by the total number of Offer Shares (subject to the Over-allotment Option). For unsubscribed Hong Kong Offer Shares reallocated to the International Offering, we will pay an underwriting commission at the rate applicable to the International Offering and such commission will be paid to the International Underwriters (but not the Hong Kong Underwriter).

The aggregate commissions and fees, together with listing fees, SFC transaction levy and Stock Exchange trading fee, legal and other professional fees and printing and other expenses relating to the Global Offering are estimated to amount to approximately HK\$45.6 million (assuming an Offer Price of HK\$2.38 being the maximum offer price payable on application and assuming that the Over-allotment Option is not exercised) in total and are payable by us, and in respect of the Sale Shares by the Selling Shareholder.

Hong Kong Underwriter's Interests in our Company

Save for its obligations under the Hong Kong Underwriting Agreement and as disclosed in this prospectus, the Hong Kong Underwriter does not have any shareholding interests in our Company or any other member of our Group or the right or option (whether legally enforceable or not) to subscribe for or nominate persons to subscribe for securities in our Company or any other member of our Group.

Following completion of the Global Offering, the Hong Kong Underwriter and their affiliated companies may hold a certain portion of the Shares as a result of fulfilling their obligations under the Hong Kong Underwriting Agreement.

Buyers of Offer Shares sold by the Underwriters may be required to pay stamp taxes and other charges in accordance with the laws and practice of the country of purchase in addition to the Offer Price.

Sole Sponsor's Independence

As far as the Sole Sponsor is aware, the Sole Sponsor or its affiliates do not have any other current business relationships with or provide any credit facilities or guarantees to our Group (other than as acting as Sole Sponsor to our Company) or the substantial shareholders of our Company which would reasonably be considered to affect the independence of the Sole Sponsor in performing its duties as set out in Rule 3A.07 of the Listing Rules.

STRUCTURE OF THE GLOBAL OFFERING

THE GLOBAL OFFERING

This prospectus is published in connection with the Hong Kong Public Offering as part of the Global Offering. The Global Offering comprises:

- (i) the Hong Kong Public Offering of 29,100,000 Hong Kong Offer Shares (subject to adjustment as mentioned below) in Hong Kong as described below in the paragraph headed “The Hong Kong Public Offering”; and
- (ii) the International Offering of an aggregate of 261,900,000 International Offer Shares, of which 234,900,000 new Shares are to be issued by our Company and 27,000,000 Sales Shares are to be offered by the Selling Shareholder (subject to adjustment and the Over-allotment Option as mentioned below) outside the United States (including to professional and institutional investors within Hong Kong), in offshore transactions in reliance on Regulation S and in the United States to QIBs in reliance on Rule 144A or another exemption from the registration requirements under the U.S. Securities Act.

Citi is the Sole Global Coordinator, Sole Bookrunner and Sole Lead Manager of the Global Offering and is the Sole Sponsor of the Listing.

Investors may apply for Hong Kong Offer Shares under the Hong Kong Public Offering or apply for or indicate an interest for Offer Shares under the International Offering, but may not do both.

References in this prospectus to applications, Application Forms, application monies or the procedure for application relate solely to the Hong Kong Public Offering.

THE HONG KONG PUBLIC OFFERING

Number of Offer Shares initially offered

We are initially offering 29,100,000 Hong Kong Offer Shares for subscription by the public in Hong Kong at the Offer Price, representing 10.0% of the total number of Offer Shares initially available under the Global Offering, subject to the reallocation of Offer Shares between the International Offering and the Hong Kong Public 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 paragraph headed “Conditions of the Hong Kong Public Offering” below.

Allocation

Allocation of 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 Offer Shares validly applied for by applicants. Such allocation could, where appropriate, consist of balloting, which would mean that some applicants may receive a higher allocation than others who have applied for the same number of Hong Kong Offer Shares, and those applicants who are not successful in the ballot may not receive any Hong Kong Offer Shares.

The total number of Offer Shares available under the Hong Kong Public Offering (after taking account of any reallocation referred to below) is to be divided equally into two pools for allocation purposes: pool A and pool B. The Hong Kong Offer Shares in pool A will be allocated on an equitable basis to applicants who have applied for Hong Kong Offer Shares with an aggregate price of HK\$5

STRUCTURE OF THE GLOBAL OFFERING

million (excluding the brokerage, SFC transaction levy and the Stock Exchange trading fee payable) or less. The Hong Kong Offer Shares in pool B will be allocated on an equitable basis to applicants who have applied for Hong Kong Offer Shares with an aggregate price of more than HK\$5 million (excluding the brokerage, SFC transaction levy and the Stock Exchange trading fee payable) up to the total value of pool B. Investors should be aware that the allocation ratios for applications in pool A and applications in pool B may be different. If the Hong Kong Offer Shares in one (but not both) of the pools are under-subscribed, the unsubscribed Hong Kong Offer Shares will be transferred to the other pool to satisfy demand in that other pool and be allocated accordingly. For the purpose of this paragraph only, the “price” for Hong Kong Offer Shares means the price payable on application therefor (without regard to the Offer Price as finally determined). Applicants can only receive an allocation of Hong Kong Offer Shares from either pool A or pool B but not from both pools. Multiple or suspected multiple applications and any application for more than 14,550,000 Hong Kong Offer Shares, being the number of Hong Kong Offer Shares initially available under each pool, are liable to be rejected.

Reallocation

The allocation of the Offer Shares between (i) the Hong Kong Public Offering and (ii) the International Offering is subject to adjustment. If the number of Offer Shares validly applied for under 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, then Offer Shares will be reallocated to the Hong Kong Public Offering from the International Offering. As a result of such reallocation, the total number of Offer Shares available under the Hong Kong Public Offering will be increased to 87,300,000 Offer Shares (in the case of (i)), 116,400,000 Offer Shares (in the case of (ii)) and 145,500,000 Offer Shares (in the case of (iii)), representing 30%, 40% and 50% of the Offer Shares initially available under the Global Offering, respectively (before any exercise of the Over-allotment Option). In each case, the additional Offer Shares reallocated to the Hong Kong Public Offering will be allocated between pool A and pool B and the number of Offer Shares allocated to the International Offering will be correspondingly reduced in such manner as the Sole Global Coordinator deems appropriate. In addition, the Sole Global Coordinator may allocate Offer Shares from the International Offering to the Hong Kong Public Offering to satisfy valid applications under the Hong Kong Public Offering.

The Offer 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.

Applications

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(s) for whose benefit he is making the application have not applied for or taken up, or indicated an interest for, and will not apply for or take up, or indicate an interest for, any Offer Shares under the International Offering, and such applicant’s application is liable to be rejected if the said undertaking and/or confirmation is breached and/or untrue (as the case may be) or it has been or will be placed or allocated Offer Shares under the International Offering.

Applicants under the Hong Kong Public Offering are required to pay, on application, the maximum price of HK\$2.38 per Offer Share in addition to the brokerage, SFC transaction levy and Stock Exchange trading fee payable on each Offer Share. If the Offer Price, as finally determined in the manner described in the paragraph headed “Pricing and Allocation” below, is less than the

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maximum price of HK\$2.38 per Offer Share, appropriate refund payments (including the brokerage, SFC transaction levy and Stock Exchange trading fee attributable to the surplus application monies) will be made to successful applicants, without interest. Further details are set out below in the section headed “How to Apply for Hong Kong Offer Shares” in this prospectus.

THE INTERNATIONAL OFFERING

Number of Offer Shares offered

We are initially offering 261,900,000 International Offer Shares, comprising 234,900,000 newly issued Shares offered by us and 27,000,000 Sale Shares offered by the Selling Shareholder, representing 90.0% of the total number of Offer Shares initially available under the Global Offering. The International Offering is subject to the Hong Kong Public Offering becoming unconditional. Subject to the reallocation of Offer Shares between the International Offering and the Hong Kong Public Offering, the International Offer Shares will represent approximately 22.5% of our Company’s enlarged issued share capital immediately after completion of the Global Offering, assuming that the Over-allotment Option is not exercised.

Allocation

The International Offering will include selective marketing of Offer Shares to institutional and professional investors and other investors anticipated to have a sizeable demand for such Offer Shares. 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. Allocation of Offer Shares pursuant to the International Offering will be effected in accordance with the “book-building” process described in the paragraph headed “Pricing and Allocation” below and based on a number of factors, including the level and timing of demand, the total size of the relevant investor’s invested assets or equity assets in the relevant sector and whether or not it is expected that the relevant investor is likely to buy further Shares, and/or hold or sell its Shares, after the Listing. Such allocation is intended to result in a distribution of the Shares on a basis which would lead to the establishment of a solid professional and institutional shareholder base to the benefit of our Company and our Shareholders as a whole.

The Sole Global Coordinator (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 they are excluded from any application of Offer Shares under the Hong Kong Public Offering.

OVER-ALLOTMENT OPTION

In connection with the Global Offering, we and the Selling Shareholder are expected to grant the Over-allotment Option to the International Underwriters, exercisable by the Sole Global Coordinator on behalf of the International Underwriters.

Pursuant to the Over-allotment Option, the International Underwriters have the right, exercisable by the Sole Global Coordinator (on behalf of the International Underwriters) within 30 days from the last day for lodging of applications under the Hong Kong Public Offering (the last day for exercise of the Over-allotment Option being July 29, 2011), to require us to allot and issue and the Selling Shareholder to sell up to an aggregate of 43,650,000 additional Offer Shares representing approximately 15% of the initial Offer Shares, at the same price per Offer Share under the International Offering, to, among other things, cover over-allocations in the International Offering, if

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any. If the Over-allotment Option is exercised in full, the additional Offer Shares will represent approximately 3.70% of our enlarged issued share capital immediately following the completion of the Global Offering and the exercise of the Over-allotment Option. In the event that the Over-allotment Option is exercised, a press announcement will be made.

STABILIZATION

In connection with the Global Offering, Citi (or its affiliates or any person acting for it), as stabilizing manager, on behalf of the Underwriters, may, to the extent permitted by applicable laws of Hong Kong or elsewhere, over-allocate Shares or effect transactions with a view to stabilizing or supporting the market price of our Shares at a level higher than that which might otherwise prevail for a limited period after the Listing Date. Please refer to the section headed “Information about this Prospectus and the Global Offering — Over-allotment and Stabilization” in this prospectus for details regarding stabilization, over-allocation and stock borrowing arrangements in connection with the Global Offering.

STOCK BORROWING

In order to facilitate settlement of over-allocations in connection with the International Offering, a Stock Borrowing Agreement has been entered into between the Stabilizing Manager and Keen Vast in compliance with Rule 10.07(3) of the Listing Rules. Under the Stock Borrowing Agreement, Keen Vast has agreed with the Stabilizing Manager that if requested by the Stabilizing Manager, it will, subject to the terms of the Stock Borrowing Agreement, make available to the Stabilizing Manager up to 43,650,000 Shares held by it, by way of stock lending, in order to cover overallocations in connection with the International Offering on the conditions that:

- (i) such stock borrowing arrangement will only be affected by the Stabilizing Manager for settlement of over-allocations of Shares in connection with the International Offering;
- (ii) the maximum number of Shares which must be borrowed from Keen Vast by the Stabilizing Agent under the Stock Borrowing Agreement must not exceed the maximum number of Shares which may be issued upon the full exercise of the Over-allotment Option;
- (iii) the same number of Shares so borrowed must be returned to Keen Vast or its nominees, as the case may be, on or before the third business day following the earlier of:
 - (a) the last day on which the Over-allotment Option may be exercised; or
 - (b) the day on which the Over-allotment is exercised in full;
- (iv) the stock borrowing arrangement under the Stock Borrowing Agreement will be effected in compliance with all applicable laws and regulatory requirements; and
- (v) no payments or other benefits will be made to Keen Vast by the Stabilizing Manager or any of the International Underwriters in relation to such stock borrowing arrangement.

PRICING AND ALLOCATION

The International Underwriters will be soliciting from prospective investors indications of interest in acquiring Offer Shares in the International Offering. Prospective professional and institutional investors will be required to specify the number of Offer Shares under the International Offering they would be prepared to acquire either at different prices or at a particular price. This process, known as “book-building,” is expected to continue up to, and to cease on or around, the last day for lodging applications under the Hong Kong Public Offering.

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Pricing for the Offer Shares for the purpose of the various offerings under the Global Offering will be fixed on the Price Determination Date, which is expected to be on or around June 30, 2011, and in any event on or before July 6, 2011, by agreement between our Company and the Sole Global Coordinator (on behalf of the Underwriters) and the number of Offer Shares to be allocated under the various offerings will be determined shortly thereafter.

The Offer Price will not be more than HK\$2.38 per Offer Share.

The Sole Global Coordinator, on behalf of the Underwriters, may, where considered appropriate, based on the level of interest expressed by prospective professional and institutional investors during the book-building process, and with the consent of our Company, reduce the number of Offer Shares and/or the indicative Offer Price range below that stated in this prospectus at any time on or prior to the morning of the last day for lodging applications under the Hong Kong Public Offering. In such a case, we will, as soon as practicable following the decision to make such reduction, and in any event not later than the morning of the day which is the last day for lodging applications under the Hong Kong Public Offering, cause there to be published in the South China Morning Post and the Hong Kong Economic Times notices of the reduction. Upon issue of such a notice, the number of Offer Shares and/or the indicative Offer Price range will be final and conclusive. Applicants should have regard to the possibility that any announcement of a reduction in the number of Offer Shares and/or the indicative Offer Price range may not be made until the day which is the last day for lodging applications under the Hong Kong Public Offering. Such notice will also include confirmation or revision, as appropriate, of the working capital statement and the profit forecast for the year ending December 31, 2011 and the Global Offering statistics as currently set forth in this prospectus, and any other financial information which may change as a result of such reduction. In the absence of any such notice so published, the number of Offer Shares will not be reduced.

In the event of a reduction in the number of Offer Shares being offered under the Global Offering, the Sole Global Coordinator may at its discretion reallocate the number of Offer Shares to be offered under the Hong Kong Public Offering and the International Offering, provided that the number of Offer Shares comprised in the Hong Kong Public Offering shall not be less than 10% of the total number of Offer Shares available under the Global Offering (assuming the Over-allotment Option is not exercised). The Offer Shares to be offered in the International Offering and the Offer Shares to be offered in the Hong Kong Public Offering may, in certain circumstances, be reallocated as between these offerings at the discretion of the Sole Global Coordinator.

The final Offer Price is expected to be announced on July 7, 2011, and the indications of interest in the Global Offering, the results of applications and the basis of allotment of Offer Shares available under the Hong Kong Public Offering, are expected to be announced on July 7, 2011 in the manner set forth in the section headed “How to Apply for the Hong Kong Offer Shares — Publication of Results” in this prospectus.

The net proceeds of the Global Offering we expect to receive (after deduction of underwriting fees and estimated expenses payable by us in relation to the Global Offering and assuming that the Over-allotment Option is not exercised) are estimated to be approximately HK\$404.0 million, assuming an Offer Price of HK\$1.68 per Share, or HK\$582.7 million, assuming an Offer Price of HK\$2.38 per Share (or if the Over-allotment Option is exercised in full, HK\$431.1 million, assuming an Offer Price of HK\$1.68 per Share, or HK\$621.1 million, assuming an Offer Price of HK\$2.38 per Share). The Sale Shares will be sold by the Selling Shareholder and we will not receive any proceeds from the sale of the Sale Shares.

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CONDITIONS OF THE HONG KONG PUBLIC OFFERING

Acceptance of all applications for Offer Shares pursuant to the Hong Kong Public Offering will be conditional on:

- (i) the Listing Committee of the Stock Exchange granting listing of, and permission to deal in, the Shares in issue and the Offer Shares being offered pursuant to the Global Offering (including the additional Offer Shares which may be made available pursuant to the exercise of the Over-allotment Option) (subject only to allotment) and Shares which may fall to be issued on the exercise of options which may be granted under the Share Option Scheme not later than July 8, 2011 (or such later date as our Company and the Sole Global Coordinator (on behalf of the Hong Kong Underwriter) may agree) and such listing and permission not subsequently having been revoked prior to the commencement of dealings in the Offer Shares on the Stock Exchange;
- (ii) the Offer Price having been duly determined and the execution and delivery of the International Underwriting Agreement on or around the Price Determination Date; and
- (iii) the obligations of the Hong Kong Underwriter under the Hong Kong Underwriting Agreement and the obligations of the International Underwriters under the International 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 the Hong Kong Underwriting Agreement or the International Underwriting Agreement (unless and to the extent such conditions are validly waived on or before such dates and times) and in any event not later than the date which is 30 days after the date of this prospectus.

If, for any reason, the Offer Price is not agreed between our Company and the Sole Global Coordinator (on behalf of the Underwriters) on or before July 6, 2011, the Global Offering will not proceed.

The consummation of each of the Hong Kong Public Offering and the International Offering is conditional upon, among other things, the other offering becoming unconditional and not having been terminated in accordance with their respective terms.

If the above conditions are not fulfilled or waived prior to the times and dates specified, the Global Offering will lapse and the Stock Exchange will be notified immediately. Notice of the lapse of the Hong Kong Public Offering will be published by our Company in the South China Morning Post and the Hong Kong Economic Times on the next day following such lapse. In such eventuality, all application monies will be returned, without interest, on the terms set forth in the section headed “How to Apply for Hong Kong Offer Shares — Dispatch/Collection of Share Certificates and Refund Monies” in this prospectus. In the meantime, all application monies will be held in (a) separate bank account(s) with the receiving bankers or other bank(s) in Hong Kong licensed under the Banking Ordinance (Chapter 155 of the Laws of Hong Kong)(as amended).

Share certificates for the Offer Shares will only become valid certificates of title at 8:00 a.m. on the Listing Date 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.

HOW TO APPLY FOR HONG KONG OFFER SHARES

1. WHO CAN APPLY FOR HONG KONG OFFER SHARES

You can apply for the Hong Kong Offer Shares available for subscription by the public on a **WHITE OR YELLOW** Application Form, if you or any person(s) for whose benefit you are applying, are an individual, and:

- are 18 years of age or older;
- have a Hong Kong address;
- are outside the United States and will be acquiring the Hong Kong Offer Shares in an offshore transaction (as defined in Regulation S under the U.S. Securities Act); and
- are not a legal or natural person of the PRC (except qualified domestic institutional investors).

If you wish to apply for Hong Kong Offer Shares online through the **White Form eIPO** service (www.eipo.com.hk), in addition to the above you must also:

- have a valid Hong Kong identity card number; and
- be willing to provide a valid e-mail address and a contact telephone number.

You may only apply by means of the **White Form eIPO** service if you are an individual applicant. Corporations or joint applicants may not apply by means of **White Form eIPO**.

If the applicant is a firm, the application must be in the names of the individual members, not the firm's name. If the applicant is a body corporate, the Application Form must be signed by a duly authorized officer, who must state his or her representative capacity.

If an application is made by a person duly authorized under a valid power of attorney, our Company or the Sole Global Coordinator (or its agents or nominees) may accept it at its discretion, and subject to any conditions they may think fit, including production of evidence of the authority of the attorney.

The number of joint applicants may not exceed four.

We, the Sole Global Coordinator, or the designated White Form eIPO Service Provider (where applicable), or our or their respective agents have full discretion to reject or accept any application, in full or in part, without assigning any reason.

Save under the circumstances permitted under the Listing Rules, the Hong Kong Offer Shares are not available to existing beneficial owners of our Shares, or Directors or chief executives of our Company or any of our subsidiaries, or their respective associates (as defined in the Listing Rules) or any other connected persons (as defined in the Listing Rules) of our Company or our subsidiaries.

You may apply for Hong Kong Offer Shares under the Hong Kong Public Offering or indicate an interest for International Offer Shares under the International Offering, but may not do both.

2. CHANNELS OF APPLYING FOR THE HONG KONG OFFER SHARES

You may apply for the Hong Kong Offer Shares by using one of the following channels:

- using a **WHITE** Application Form — use a **WHITE** Application Form if you want the Hong Kong Offer Shares to be issued in your own name;
- instead of using a **WHITE** Application Form, you may apply for the Hong Kong Offer Shares by means of **White Form eIPO** by submitting applications online through the designated website of www.eipo.com.hk. Use **White Form eIPO** if you want the Hong Kong Offer Shares to be registered in your name;
- using a **YELLOW** Application Form — use a **YELLOW** application form if you want the Hong Kong Offer Shares to be issued in the name of HKSCC Nominees and deposited directly into CCASS for credit to your CCASS Investor Participant stock account or your designated CCASS Participant's stock account;

HOW TO APPLY FOR HONG KONG OFFER SHARES

- instead of using a **YELLOW** Application Form, you may give **electronic application instructions** to HKSCC to cause HKSCC Nominees to apply for the Hong Kong Offer Shares on your behalf.

Except where you are a nominee and provide the required information in your application, you or you and your joint applicant(s) may not make more than one application (whether individually or jointly) by applying on a **WHITE** or **YELLOW** Application Form or applying online through **White Form eIPO** service or by giving **electronic application instructions** to HKSCC.

3. WHERE TO COLLECT THE APPLICATION FORMS

You can collect a **WHITE** Application Form and a prospectus during normal business hours from 9:00 a.m. on Friday, June 24, 2011 until 12:00 noon on Wednesday, June 29, 2011:

The following addresses of the Hong Kong Underwriter:

Citigroup Global Markets Asia Limited 50th Floor, Citibank Tower, Citibank Plaza, 3 Garden Road, Central, Hong Kong

or any one of the following branches of Standard Chartered Bank (Hong Kong) Limited:

	<u>Branch Name</u>	<u>Address</u>
Hong Kong Island:	88 Des Voeux Road Branch	88 Des Voeux Road Central, Central
	Hennessy Road Branch	399 Hennessy Road, Wanchai
Kowloon:	Kwun Tong Hoi Yuen Road	G/F, Fook Cheong Building, No. 63 Hoi Yuen Road, Kwun Tong, Kowloon
	Mongkok Branch	Shop B, G/F, 1/F & 2/F, 617-623 Nathan Road, Mongkok
	Cheung Sha Wan Branch	828 Cheung Sha Wan Road, Cheung Sha Wan
New Territories:	Maritime Square Branch	Shop 308E, Level 3, Maritime Square, Tsing Yi
	Tai Po Branch	23 & 25 Kwong Fuk Road, Tai Po Market, Tai Po
	Tuen Mun Town Plaza Branch	Shop No. G047-G052, Tuen Mun Town Plaza Phase I, Tuen Mun

HOW TO APPLY FOR HONG KONG OFFER SHARES

or any one of the following branches of China Construction Bank (Asia) Corporation Limited:

	<u>Branch Name</u>	<u>Address</u>
Hong Kong Island:	Central Branch	6 Des Voeux Road Central, Central
	Causeway Bay Plaza Branch	G/F, Causeway Bay Plaza 1, Causeway Bay
	North Point Branch	382 King's Road, North Point
Kowloon:	Mei Foo Branch	Shop N46, G/F, Mei Foo Sun Chuen, Stage 6
	Kowloon Bay Amoy Gardens Branch	Shop 181, G/F Phase IIA, Amoy Gardens
	Tai Kok Tsui Olympian City Branch	Shop 109, 1/F, Olympian City 2
New Territories:	Tsuen Wan Branch	282 Sha Tsui Road, Tsuen Wan
	Shatin Plaza Branch	Shop 5, Level 1, Shatin Plaza, Shatin

You can collect a **YELLOW** Application Form and a prospectus during normal business hours from 9:00 a.m. on Friday, June 24, 2011 until 12:00 p.m. on Wednesday, June 29, 2011 from:

- (1) The **Depository Counter of HKSCC** at 2nd Floor, Infinitus Plaza, 199 Des Voeux Road Central, Hong Kong; or
- (2) Your stockbroker, who may have such Application Forms and this prospectus available.

4. HOW TO APPLY USING A WHITE OR YELLOW APPLICATION FORM

There are detailed instructions on each Application Form. You should read these instructions carefully. If you do not follow the instructions, your application may be rejected and returned by ordinary post together with the accompanying cheque(s) or banker's cashier order(s) to you (or the first-named applicant in the case of joint applicants) at your own risk at the address stated in the Application Form.

Each application must be accompanied by payment, in the form of either one cheque or one banker's cashier order. You should read the detailed instructions set out in the Application Form carefully, as an application is liable to be rejected if the cheque or banker's cashier order does not meet the requirements set out in the Application Form.

Lodge the Application Form in one of the collection boxes by the time and at one of the locations set out in the paragraph headed "— When May Applications be Made" in this prospectus.

In order an application made on a **YELLOW** Application Form to be valid:

you, as the applicant(s), must complete the Application Form as indicated below and sign on the first page of the Application Form. Only written signatures will be accepted.

(i) **If the application is made through a designated CCASS Participant (other than a CCASS Investor Participant):**

- (a) the designated CCASS Participant must endorse the form with its company chop (bearing its company name) and insert its participant I.D. in the appropriate box in the Application Form.

HOW TO APPLY FOR HONG KONG OFFER SHARES

(ii) If the application is made by an individual CCASS Investor Participant:

- (a) the Application Form must contain the CCASS Investor Participant's name and Hong Kong identity card number; and
- (b) the CCASS Investor Participant must insert its participant I.D. in the appropriate box in the Application Form.

(iii) If the application is made by a joint individual CCASS Investor Participant:

- (a) the Application Form must contain the names and Hong Kong identity card numbers of all joint CCASS Investor Participants; and
- (b) the CCASS Investor's participant I.D. must be inserted in the appropriate box on the Application Form.

(iv) If the application is made by a corporate CCASS Investor Participant:

- (a) the Application Form must contain the CCASS Investor Participant's company name and Hong Kong Business Registration number; and
- (b) the participant I.D. and company chop (bearing its company name) must be inserted in the appropriate box in the Application Form.

Incorrect or omission of details of the CCASS Participant (including participant I.D. and/or company chop bearing its company name) or other similar matters may render the application invalid.

If your application is made through a duly authorized attorney, our Company, the Sole Global Coordinator, the Underwriters and their respective agents and nominees, each severally as our agent(s), may accept it at their discretion, and subject to any conditions they think fit, including production of evidence of the authority of your attorney. We and the Sole Global Coordinator, in the capacity as our agent, or its agents or nominees, will have full discretion to reject or accept any application, in full or in part, without assigning any reason.

Nominees who wish to submit separate applications in their names on behalf of different beneficial owners are requested to designate on each Application Form in the box marked "For nominees" an identification number for each beneficial owner.

5. HOW TO APPLY USING WHITE FORM eIPO

General

- (i) If you are an individual, you may apply through **White Form eIPO** by submitting an application through the designated website at www.eipo.com.hk if you satisfy the relevant eligibility criteria as set forth in the paragraph headed "— Who Can Apply for Hong Kong Offer Shares". If you apply through **White Form eIPO**, the Shares will be issued in your own name.
- (ii) Detailed instructions for application through the **White Form eIPO** service are set forth on the designated website at www.eipo.com.hk. You should read these instructions carefully. If you do not follow the instructions, your application may be rejected by the designated White Form eIPO Service Provider and may not be submitted to our Company.
- (iii) If you give **electronic application instructions** through the designated website at www.eipo.com.hk, you will have authorized the designated White Form eIPO Service Provider to apply on the terms and conditions set forth in this prospectus, as supplemented and amended by the terms and conditions applicable to the **White Form eIPO** service.
- (iv) In addition to the terms and conditions set forth in this prospectus, the designated White Form eIPO Service Provider may impose additional terms and conditions upon you for the use of the **White Form eIPO** service. Such terms and conditions are set forth on the designated website at www.eipo.com.hk. You will be required to read, understand and agree to such terms and conditions in full prior to making any application.

HOW TO APPLY FOR HONG KONG OFFER SHARES

- (v) By submitting an application to the designated White Form eIPO Service Provider through the **White Form eIPO** service, you are deemed to have authorized the designated White Form eIPO Service Provider to transfer the details of your application to our Company and our registrars.
- (vi) You may submit an application through the **White Form eIPO** service in respect of a minimum of 1,500 Hong Kong Offer Shares. Each **electronic application instruction** in respect of more than 1,500 Hong Kong Offer Shares must be in one of the numbers set forth in the table in the Application Forms, or as otherwise specified on the designated website at www.eipo.com.hk.
- (vii) Once you have completed payment in respect of any **electronic application instruction** given by you or for your benefit to the designated White Form eIPO Service Provider to make an application for Hong Kong Offer Shares, an actual application shall be deemed to have been made. For the avoidance of doubt, giving an **electronic application instruction** under **White Form eIPO** more than once and obtaining different application reference numbers without effecting full payment in respect of a particular application reference number will not constitute an actual application.
- (viii) **Warning:** The application for Hong Kong Offer Shares through the **White Form eIPO** service is only a facility provided by the designated White Form eIPO Service Provider to public investors. **Our Company, our Directors, the Sole Global Coordinator and the Underwriters take no responsibility for such applications, and provide no assurance that applications through the White Form eIPO service will be submitted to our Company or that you will be allotted any Hong Kong Offer Shares.**

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 designated White Form eIPO Service Provider, will contribute HK\$2 for each “CT ENVIRONMENTAL GROUP LIMITED” **White Form eIPO** application submitted via www.eipo.com.hk to support the funding of “Source of DongJiang — Hong Kong Forest” project initiated by Friends of the Earth (HK).

Please note that Internet services may have capacity limitations and/or be subject to service interruptions from time to time. To ensure that you can submit your applications through the White Form eIPO service, you are advised not to wait until the last day for submitting applications in the Hong Kong Public Offering to submit your electronic application instructions. In the event that you have problems connecting to the designated website for the **White Form eIPO** service, you should submit a **WHITE** Application Form. However, once you have submitted **electronic application instructions** and completed payment in full using the application reference number provided to you on the designated website, you will be deemed to have made an actual application and should not submit a **WHITE** or **YELLOW** Application Form. Please refer to the paragraph headed “— How Many Applications May You Make” below.

Additional Information

For the purposes of allocating Hong Kong Offer Shares, each applicant giving **electronic application instructions** through **White Form eIPO** service to the White Form eIPO Service Provider through the designated website at www.eipo.com.hk will be treated as an applicant.

If your payment of application monies is insufficient, or in excess of the required amount, having regard to the number of Hong Kong Offer Shares for which you have applied, or if your application is otherwise rejected by the designated White Form eIPO Service Provider, the designated White Form eIPO Service Provider may adopt alternative arrangements for the refund of monies to you. Please refer to the additional information provided by the designated White Form eIPO Service Provider on the designated website at www.eipo.com.hk.

HOW TO APPLY FOR HONG KONG OFFER SHARES

Otherwise, any monies payable to you due to a refund for any of the reasons set out in “Additional Terms and Conditions of the Hong Kong Public Offering — Refund of Application Monies” shall be made pursuant to the arrangements described in “Additional Terms and Conditions of the Hong Kong Public Offering — If Your Application for Hong Kong Offer Shares is Successful (in Whole or in Part) — If you apply through White Form eIPO”.

Supplemental Information

If any supplement to this prospectus is issued, applicant(s) who have already submitted **electronic application instructions** through the **White Form eIPO** service may or may not depending on the information contained in the supplement) be notified that they can withdraw their applications. If applicant(s) have not been so notified, or if applicant(s) have been notified but have not withdrawn their applications in accordance with the procedure to be notified, all applications through the **White Form eIPO** service that have been submitted remain valid and may be accepted. Subject to the above and below, an application once made through the **White Form eIPO** service is irrevocable and applicants shall be deemed to have applied on the basis of this prospectus as supplemented.

6. HOW TO APPLY BY GIVING ELECTRONIC APPLICATION INSTRUCTIONS TO HKSCC

General

CCASS Participants may give **electronic application instructions** to HKSCC to apply for the Hong Kong Offer Shares and to arrange payment of the monies due on application and payment of refunds. This will be in accordance with 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 **electronic application instructions** through the CCASS Phone System by calling 2979 7888 or through the CCASS Internet System (<https://ip.ccass.com>) (using the procedures contained 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
2/F, Infinitus Plaza
199 Des Voeux Road Central
Hong Kong

and complete an input request form.

Prospectuses are available for collection 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 Offer Shares on your behalf.

You are deemed to have authorized HKSCC and/or HKSCC Nominees to transfer the details of your application, whether submitted by you or through your broker or custodian, to our Company and our Hong Kong Share Registrar.

Minimum Subscription 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** in respect of a minimum of

HOW TO APPLY FOR HONG KONG OFFER SHARES

1,500 Hong Kong Offer Shares. Such instructions in respect of more than 1,500 Hong Kong Offer Shares must be in one of the numbers set forth in the table in the Application Forms. No application for any other number of Hong Kong Offer Shares will be considered and any such application is liable to be rejected.

Warning

The subscription of the Hong Kong Offer Shares by giving **electronic application instructions** to HKSCC is only a facility provided to CCASS Participants. Our Company, our Directors, the Sole Sponsor, the Sole Global Coordinator and the Underwriters take no responsibility for the application and provide no assurance that any CCASS Participant will be allotted any Hong Kong Offer Shares.

To ensure that CCASS Investor Participants can give their **electronic application instructions** to HKSCC through the CCASS Phone System or the CCASS Internet System, CCASS Investor Participants are advised not to wait until the last minute to input their **electronic application instructions** to the systems. In the event that CCASS Investor Participants have problems connecting to the CCASS Phone System or the CCASS Internet System to submit their **electronic application instructions**, they should either:

- (i) submit a **WHITE** or **YELLOW** Application Form; or
- (ii) go to HKSCC's Customer Service Center to complete an input request form for **electronic application instructions** before 12:00 noon on Wednesday, June 29, 2011.

7. HOW MANY APPLICATIONS MAY YOU MAKE

Multiple applications or suspected multiple applications are liable to be rejected.

You may make more than one application for the Hong Kong Offer Shares if and only if:

You are a **nominee**, in which case you may give **electronic application instructions** to HKSCC via CCASS (if you are a CCASS Participant) and lodge more than one **WHITE** or **YELLOW** Application Form in your own name if each application is made on behalf of different beneficial owners.

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 such beneficial owner). If you do not include this information, the application will be treated as being made for your benefit.

Otherwise, multiple applications are not allowed.

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 to the designated White Form eIPO Service Provider to make an application for Hong Kong Offer Shares, an actual application shall be deemed to have been made. For the avoidance of doubt, giving an **electronic application instruction** under **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** service by giving **electronic application instructions** through the designated website at www.eipo.com.hk and completing payment in respect of such **electronic application instructions**, or of submitting one application through the **White Form eIPO** service and one or more applications by any other means, all of your applications are liable to be rejected.

HOW TO APPLY FOR HONG KONG OFFER SHARES

If you are suspected of having made multiple applications or if more than one application is made for your benefit, the number of Hong Kong Offer Shares applied for by HKSCC Nominees will be automatically reduced by the number of Hong Kong Offer Shares in respect of which you have given such instructions and/or in respect of which such instructions have been given for your benefit. Any **electronic application instructions** to make an application for the Hong Kong Offer Shares given by you or for your benefit to HKSCC shall be deemed to be an actual application for the purposes of considering whether multiple applications have been made.

For further information, please refer to the paragraph headed “Additional Terms and Conditions of the Hong Kong Public Offering — Multiple Applications”.

8. WHEN MAY APPLICATIONS BE MADE

(a) Applications using WHITE or YELLOW Application Forms

Completed **WHITE** or **YELLOW** Application Forms, together with payment attached, must be lodged by 12:00 noon on Wednesday, June 29, 2011, or, if the application lists are not open on that day, then by the time and date stated in the sub-paragraph headed “— Effect of Bad Weather on the Opening of the Application Lists” below.

Your completed Application Form, together with payment attached, should be deposited in the special collection boxes provided at any of the branches of Standard Chartered Bank (Hong Kong) Limited or China Construction Bank (Asia) Corporation Limited (see the paragraph headed “Where to Collect the Application Forms” above) at the following times:

Friday, June 24, 2011 — 9:00 a.m. to 5:00 p.m.
Saturday, June 25, 2011 — 9:00 a.m. to 1:00 p.m.
Monday, June 27, 2011 — 9:00 a.m. to 5:00 p.m.
Tuesday, June 28, 2011 — 9:00 a.m. to 5:00 p.m.
Wednesday, June 29, 2011 — 9:00 a.m. to 12:00 noon

(b) White Form eIPO

You may submit your application to the designated White Form eIPO Service Provider through the designated website at www.eipo.com.hk from 9:00 a.m. on Friday, June 24, 2011 until 11:30 a.m. on Wednesday, June 29, 2011 or such later time as described under the paragraph headed “— Effect of Bad Weather on the Opening of the Application Lists” below (24 hours daily, except on the last application day). The latest time for completing full payment of application monies in respect of such applications will be 12:00 noon on Wednesday, June 29, 2011, the last application day, or, if the application lists are not open on that day, then by the time and date stated in the paragraph headed “— Effect of Bad Weather on the Opening of the Application Lists” below.

You will not be permitted to submit your application to the designated White Form eIPO Service Provider through the designated website at 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 an application reference number from the website prior to 11:30 a.m., you will be permitted to continue the application process (by completing payment of application monies) until 12:00 noon on the last day for submitting applications, when the application lists close.

You should make payment for your application made by **White Form eIPO** service in accordance with the methods and instructions set forth in the designated website at www.eipo.com.hk. **If you do not make complete payment of the application monies (including any related fees) on or before**

HOW TO APPLY FOR HONG KONG OFFER SHARES

12:00 noon on Wednesday, June 29, 2011, or such later time as described under the paragraph headed “— Effect of Bad Weather on the Opening of the Application Lists” below, the designated White Form eIPO Service Provider will reject your application and your application monies will be returned to you in the manner described in the designated website at www.eipo.com.hk.

(c) Electronic Application Instructions to HKSCC via CCASS

Those who are not CCASS Investor Participants can instruct their brokers or custodians who are CCASS Clearing Participants or CCASS Custodian Participants to give electronic applications to HKSCC via CCASS terminals to apply for Hong Kong Offer Shares on their behalf.

CCASS Clearing/Custodian Participants can input **electronic application instructions** at the following times on the following dates:

Friday, June 24, 2011 — 9:00 a.m. to 8:30 p.m.⁽¹⁾
Saturday, June 25, 2011 — 8:00 a.m. to 1:00 p.m.⁽¹⁾
Monday, June 27, 2011 — 8:00 a.m. to 8:30 p.m.⁽¹⁾
Tuesday, June 28, 2011 — 8:00 a.m. to 8:30 p.m.⁽¹⁾
Wednesday, June 29, 2011 — 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 Friday, June 24, 2011 until 12:00 noon on Wednesday, June 29, 2011 (24 hours daily, except the last application day).

The latest time for inputting your electronic application instructions via CCASS (if you are a CCASS Participant) is 12:00 noon on Wednesday, June 29, 2011 or if the Application Lists are not open on that day, by the time and date stated in the section headed “— Effect of Bad Weather Conditions on the Opening of the Application Lists” below.

(d) Application Lists

The application lists will be open from 11:45 a.m. to 12:00 noon on Wednesday, June 29, 2011 except as provided in the paragraph headed “— Effect of Bad Weather on the Opening of the Application Lists” below.

No proceedings will be taken on applications for the Shares and no allotment of any such Shares will be made until the closing of the application lists. No allotment of any of the Shares will be made later than Sunday, July 24, 2011.

(e) 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 signal

in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Wednesday, June 29, 2011. 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.

Business Day means a day that is not a Saturday, Sunday or a public holiday in Hong Kong.

HOW TO APPLY FOR HONG KONG OFFER SHARES

9. HOW MUCH ARE THE HONG KONG OFFER SHARES

The maximum offer price is HK\$2.38 per Offer Share. You must also pay brokerage of 1%, SFC transaction levy of 0.003% and Stock Exchange trading fee of 0.005%. This means that for one board lot of 1,500 Shares you will pay approximately HK\$3,605.99. The Application Forms have tables showing the exact amount payable for numbers of Shares up to 14,550,000 Shares. Your application must be for a minimum of 1,500 Shares. Applications must be in one of the numbers set out in the tables in the Application Forms. No application for any other number of Shares will be considered and any such application is liable to be rejected.

You must pay the amount payable upon application for the Shares by one cheque or one banker's cashier order in accordance with the terms set out in the Application Form (if you apply by an Application Form).

If your application is successful, brokerage is paid to participants of the Stock Exchange (as the case may be) and the SFC transaction levy and Stock Exchange trading fee are paid to the Stock Exchange (in the case of the SFC transaction levy, collected on behalf of the SFC).

10. PUBLICATION OF RESULTS

Our Company expects to release and announce the Offer Price on Thursday, July 7, 2011, and expects to release and announce the level of indications of interest in the International Offering, level of applications in the Hong Kong Public Offering and basis of allotment under the Hong Kong Public Offering on Thursday, July 7, 2011 in the South China Morning Post (in English), the Hong Kong Economic Times (in Chinese) and on our website at www.chongto.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 made available at the times and date and in the manner specified below:

- on our website at www.chongto.com and the website of the Stock Exchange at www.hkexnews.hk on Thursday, July 7, 2011;
- on our Hong Kong Public Offering results of allocations website at www.iporeresults.com.hk on a 24-hour basis from 8:00 a.m. on Thursday, July 7, 2011 to 12:00 midnight on Wednesday, July 13, 2011; The user of our Hong Kong Public Offering results of allocations website at www.iporeresults.com.hk will be required to key in the Hong Kong identity card/passport/Hong Kong business registration number provided in his/her/its application to search for his/her/its own allocation result;
- from our Hong Kong Public Offering allocation results telephone enquiry line. Applicants may find out whether or not their application has been successful and the number of Hong Kong Offer Shares allocated to them, if any, by calling 28628669 between 9:00 a.m. and 10:00 p.m. from Thursday, July 7, 2011 to Sunday, July 10, 2011; and
- special allocation results booklets setting out the results of allocations will be available for inspection during opening hours of individual branches and sub-branches from Thursday, July 7, 2011 to Saturday, July 9, 2011 at all the receiving bank branches and sub-branches at the address set out in the section headed "How to Apply for the Hong Kong Offer Shares — Where to Collect the Application Forms".

11. DISPATCH/COLLECTION OF SHARE CERTIFICATES AND REFUND MONIES

Refund cheques for surplus application monies (if any) under **WHITE** or **YELLOW** Application Forms and share certificates for successful applicants under **WHITE** Application Forms and White Form eIPO will be posted and/or available for collection (as the case may be) on Thursday, July 7, 2011.

HOW TO APPLY FOR HONG KONG OFFER SHARES

Share certificates will only become valid certificates of title at 8:00 a.m. on the Listing Date provided that the Hong Kong Public Offering has become unconditional in all respects and the right of termination described in the section headed “Underwriting — Underwriting Arrangements and Expenses — Hong Kong Public Offering — Grounds for Termination” has not been exercised.

Further information on arrangements for the dispatch/collection of share certificates and refunds of application monies is set out in the sections headed “Additional Terms and Conditions of the Hong Kong Public Offering — If your Application for Hong Kong Offer Shares is Successful (in Whole or in Part)” and “Refund of Application Monies”.

12. COMMENCEMENT OF DEALINGS IN THE OFFER SHARES

Dealings in the Offer Shares are expected to commence on Friday, July 8, 2011.

The Shares will be traded in board lots of 1,500 Shares each. The stock code of the Shares is 1162.

13. SHARES WILL BE ELIGIBLE FOR ADMISSION INTO CCASS

If the Stock Exchange grants the listing of, and permission to deal in, the Shares and we comply with the stock admission requirements of HKSCC, the Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the date of commencement of dealings in the Shares 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.

Investors should seek the advice of their stockbroker or other professional advisor for details of the settlement arrangement as such arrangements may affect their rights and interests.

All necessary arrangements have been made enabling the Shares to be admitted into CCASS.

ADDITIONAL TERMS AND CONDITIONS OF THE HONG KONG PUBLIC OFFERING

1. EFFECT OF MAKING AN APPLICATION

- (a) You should note that by completing and submitting the Application Form, among other things:
- (i) you **agree** with our Company, and each shareholder of our Company, and our Company agrees with each of our shareholders, to observe and comply with the Companies Ordinance, the Memorandum of Association and the Articles of Association;
 - (ii) you **confirm** that you have received a copy of this prospectus and have only relied on the information and representations in this prospectus in making your application and will not rely on any other information and representations save as set forth in any supplement to this prospectus;
 - (iii) you **agree** that our Company, our Directors and any person who has authorized this prospectus are liable only for the information and representations contained in this prospectus and any supplement thereto;
 - (iv) you **undertake** and **confirm** that you (if the application is made for your benefit) 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, and have not received or been placed or allotted (including conditionally or provisionally) any Offer Shares under the International Offering nor otherwise participated in the International Offering;
 - (v) you **agree** to disclose to our Company, the Sole Sponsor, the Sole Global Coordinator, the Underwriters, the share registrars, the receiving bankers and/or their respective advisors and agents personal data and any information which they require about you or the person(s) for whose benefit you have made the application;
 - (vi) **instruct** and **authorize** our Company and/or the Sole Global Coordinator (or their respective agents or nominees), as agents of our Company, to do on your behalf all things necessary to register any Hong Kong Offer Shares allotted to you in your name(s) (for applicants on a **WHITE** Application Form) or in the name of HKSCC Nominees (for applicants on a **YELLOW** Application Form), as required by the Memorandum of Association and the Articles of Association, and otherwise to give effect to the arrangements described in this prospectus and the Application Forms;
 - (vii) **undertake** to sign all documents and to do all things necessary to enable you (for applicants on a **WHITE** Application Form) or the name of HKSCC Nominees (for applicants on a **YELLOW** Application Form) to be registered as the holder of the Hong Kong Offer Shares to be allotted to you, and as required by the Memorandum of Association and the Articles of Association and otherwise to give effect to the arrangements described in this prospectus and the Application Forms;
 - (viii) **warrant** the truth and accuracy of the information contained in your Application Form;
 - (ix) if the laws of any place outside Hong Kong are applicable to your application, **agree** and **warrant** that you have complied with all such laws and none of our Company, the Sole Global Coordinator and the Underwriters nor any of their respective officers or advisors will infringe 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;
 - (x) **agree** (without prejudice to any other rights which you may have) that once your application has been accepted, you may not rescind it because of an innocent misrepresentation;
 - (xi) **agree** that your application, any acceptance of it and the resulting contract will be governed by and construed in accordance with the laws of Hong Kong;

ADDITIONAL TERMS AND CONDITIONS OF THE HONG KONG PUBLIC OFFERING

- (xii) **represent, warrant and undertake** that you understand that the Hong Kong Offer Shares have not been and will not be registered under the U.S. Securities Act and you and any person for whose account or benefit you are acquiring the Hong Kong Offer Shares are outside the United States (as defined in Regulation S under the U.S. Securities Act) when completing the Application Form and will be acquiring the Hong Kong Offer Shares in an offshore transaction (as defined in Regulation S);
- (xiii) **undertake and agree** to accept the Hong Kong Offer Shares applied for, or any lesser number allotted to you under the application; and
- (xiv) **agree** that the processing of your application, including the dispatch of refund cheque(s) (if any), may be done by any of our Company's receiving bankers and is not restricted to the bank at which your application was lodged.
- (b) If you apply 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 authorized HKSCC to cause HKSCC Nominees (acting as nominee for the relevant CCASS Participants) to apply for the Hong Kong Offer Shares on your behalf;
 - instructed and authorized HKSCC to arrange payment of the maximum offer price, brokerage, SFC transaction levy and Stock Exchange trading fee by debiting your designated bank account and, in the case of a wholly or partially unsuccessful application and/or the Offer Price is less than the offer price per Offer Share initially paid on application, refund of the application monies, in each case including brokerage, SFC transaction levy and Stock Exchange trading fee, by crediting your designated bank account;
 - instructed and authorized HKSCC to cause HKSCC Nominees to do on your behalf all the things which it is stated to do on your behalf in the **WHITE** Application Form.

Where a **WHITE** Application Form is signed by HKSCC Nominees on behalf of persons who have given **electronic application instructions** to apply for the Hong Kong Offer Shares:

- (i) HKSCC Nominees is only acting as a nominee for those persons and shall not be liable for any breach of the terms and conditions of the **WHITE** Application Form or this prospectus;
- (ii) HKSCC Nominees does the following things on behalf of each such person:
- **agrees** that the Hong Kong Offer Shares to be allotted shall be issued in the name of HKSCC Nominees and deposited directly into CCASS for the credit of the stock account of the CCASS Participant who has inputted **electronic application instructions** on that person's behalf or that person's CCASS Investor Participant stock account;
 - **undertakes and agrees** to accept the Hong Kong Offer Shares in respect of which that person has given **electronic application instructions** or any lesser number;
 - **undertakes and confirms** that that person has not applied for or taken up, or indicated an interest for, and will not apply for or take up, or indicate an interest for, and has not received or been placed or allocated (including conditionally or provisionally) any Offer Shares under the International Offering nor otherwise participated in the International Offering;

ADDITIONAL TERMS AND CONDITIONS OF THE HONG KONG PUBLIC OFFERING

- (if the **electronic application instructions** are given for that person's own benefit) **declares** that only one set of **electronic application instructions** has been given for that person's benefit;
- (if that person is an agent for another person) **declares** that that person has only given one set of **electronic application instructions** for the benefit of that other person and that that person is duly authorized to give those instructions as that other person's agent;
- **understands** that the above declaration will be relied upon by our Company, our Directors and the Sole Global Coordinator in deciding whether or not to make any allotment of the Hong Kong Offer Shares in respect of the **electronic application instructions** given by that person and that that person may be prosecuted if he makes a false declaration;
- **authorizes** our Company to place the name of HKSCC Nominees on the register of members of our Company as the holder of the Hong Kong Offer Shares allotted in respect of that person's **electronic application instructions** and to send share certificate(s) and/or refund monies in accordance with the arrangements separately agreed between our Company and HKSCC;
- **confirms** that that person has read the terms and conditions and application procedures set forth in this prospectus and agrees to be bound by them;
- **confirms** that that person has received a copy of this prospectus and has only relied on the information and representations in this prospectus in giving that person's **electronic application instructions** or instructing that person's broker or custodian to give **electronic application instructions** on that person's behalf;
- **agrees** that our Company, our Directors and any person who has authorized this prospectus are liable only for the information and representations contained in this prospectus and any supplement thereto;
- **agrees** to disclose that person's personal data to our Company, the Sole Sponsor, the Sole Global Coordinator, the Underwriters, the share registrars, the receiving bankers and/or their respective advisors and agents and any information which they may require about that person;
- **agrees** (without prejudice to any other rights which that person may have) that once the application of HKSCC Nominees has been accepted, the application cannot be rescinded for innocent misrepresentation;
- **agrees** that any application made by HKSCC Nominees on behalf of that person pursuant to **electronic application instructions** given by that person is irrevocable before Wednesday, July 6, 2011, the end of 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 a public holiday in Hong Kong), such agreement to take effect as a collateral contract with our Company and to become binding when that person gives the instructions and such collateral contract to be in consideration of our Company agreeing that it will not offer any Hong Kong Offer Shares to any person before Wednesday, July 6, 2011, the end of 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 a 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 Ordinance (as applied by Section 342E of the Companies Ordinance) gives a public notice under that section which excludes or limits the responsibility of that person for this prospectus;

ADDITIONAL TERMS AND CONDITIONS OF THE HONG KONG PUBLIC OFFERING

- **agrees** that once the application of HKSCC Nominees Limited is accepted, neither that application nor that person's **electronic application instructions** can be revoked, and that acceptance of that application will be evidenced by the announcement of the results of the Hong Kong Public Offering made available by our Company;
 - **agrees** to the arrangements, undertakings and warranties specified in the participant agreement between that person and HKSCC, read with the General Rules of CCASS and the CCASS Operational Procedures, in respect of the giving of **electronic application instructions** relating to Hong Kong Offer Shares;
 - **agrees** with our Company, for ourselves and for the benefit of each of our shareholders (and so that we 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 our shareholders, with each CCASS Participant giving **electronic application instructions**) to observe and comply with the Companies Ordinance, the Memorandum of Association and the Articles of Association; and
 - **agrees** that that person's application, any acceptance of it and the resulting contract will be governed by and construed in accordance with the laws of Hong Kong.
- (c) If you apply by using the **White Form eIPO** service to apply for the Hong Kong Offer Shares, you shall be deemed to have accepted the following conditions:

That you, the applicant:

- **applies** for the desired number of Hong Kong Offer Shares on the terms and conditions of this prospectus and the White Form eIPO designated website at www.eipo.com.hk subject to the Memorandum of Association and the Articles of Association of our Company;
- **undertakes** and agrees to accept the Hong Kong Offer Shares applied for, or any lesser number allotted to the applicant on such application;
- **declares** that this is the only application made and the only application intended by the applicant to be made whether on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC or the White Form eIPO Service Provider under the **White Form eIPO** service, to benefit the applicant or the person for whose benefit the applicant is applying;
- **undertakes** and **confirms** that the applicant and the person for whose benefit the applicant is applying 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, and have not received or been placed or allotted (including conditionally and/or provisionally) any Offer Shares under the International Offering, nor otherwise participated in the International Offering;
- **understands** that this declaration and representation will be relied upon by our Company in deciding whether or not to make any allotment of Hong Kong Offer Shares in response to such application;
- **authorizes** our Company to place the applicant's name on the register of members of our Company as the holder of any Hong Kong Offer Shares to be allotted to the applicant, and (subject to the terms and conditions set forth in this prospectus) to send any share certificates by ordinary post at the applicant's own risk to the address given on the White Form eIPO application except where the applicant has applied for 1,000,000 or more Hong Kong Offer Shares and that applicant collects any share certificate(s) in person in accordance with the procedures prescribed in the White Form eIPO designated website at www.eipo.com.hk and this prospectus;
- **request** that e-Refund payment instructions (if any) will be dispatched to application payment account, if the applicant paid the application monies from a single bank account;

ADDITIONAL TERMS AND CONDITIONS OF THE HONG KONG PUBLIC OFFERING

- **request** that refund cheque (if any) will be dispatched to the address specified in application instructions to the designated White Form eIPO Service Provider by ordinary post and at applicant's own risk, if the applicant used multi-bank accounts to pay the application monies;
- **has read** the terms and conditions and application procedures set forth on the White Form eIPO designated website at www.eipo.com.hk and this prospectus and **agrees** to be bound by them;
- **represents, warrants and undertakes** that the applicant, and any persons for whose benefit the applicant is applying are non-U.S. person(s) outside the United States (as defined in Regulation S under the U.S. Securities Act) when completing and submitting the Application Form and will be acquiring the Hong Kong Offer Shares in an offshore transaction (as defined in Regulation S) or is a person described in paragraph (h)(3) of Rule 902 of Regulation S under the U.S. Securities Act or the allotment of or application for the Hong Kong Offer Shares to or by whom or for whose benefit this application is made would not require our Company to comply with any requirements under any law or regulation (whether or not having the force of law) of any territory outside Hong Kong; and
- **agrees** that such application, any acceptance of it and the resulting contract will be governed by and construed in accordance with the laws of Hong Kong.

In addition, by completing and submitting an application through the **White Form eIPO** service, you for yourself or as agent or nominee and on behalf of any person for whom you act as agent or nominee shall be deemed to:

- instruct and authorize our Company, the Sole Global Coordinator as agent for our Company (or their respective agents or nominees) to do on your behalf all things necessary to register any Hong Kong Offer Shares allotted to you in your name as required by the Memorandum of Association and the Articles of Association and otherwise to give effect to the arrangements described in this prospectus and the White Form eIPO designated website at www.eipo.com.hk;
- confirm that you have only relied on the information and representations in this prospectus in making your application and will not rely on any other information and representations save as set forth in any supplement to this prospectus;
- agree that our Company, our Directors and any person who has authorized this prospectus are liable only for the information and representations contained in this prospectus and any supplement thereto;
- agree (without prejudice to any other rights which you may have) that once your application has been accepted, you may not rescind it because of an innocent misrepresentation;
- (if the application is made for your own benefit) warrant that this is the only application which 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 via the **White Form eIPO** service;

ADDITIONAL TERMS AND CONDITIONS OF THE HONG KONG PUBLIC OFFERING

- (if you are an agent for another person) warrant that reasonable enquiries have been made of that other person that this is the only application which has been or will be made for the benefit of that other person on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC or to the White Form eIPO Service Provider via the **White Form eIPO** service, and that you are duly authorized to submit the application as that other person's agent;
- undertake and confirm that, you (if the application is made for your benefit) or the person(s) for whose benefit you have made this application have not applied for or taken up, or indicated an interest for, and will not apply for, take up or indicate an interest for, any Offer Shares under the International Offering;
- agree that your application, any acceptance of it and the resulting contract will be governed by and construed in accordance with the laws of Hong Kong;
- agree to disclose to our Company, the Sole Sponsor, the Sole Global Coordinator, the Underwriters, the share registrars, the receiving bankers and/or their respective advisors and agents personal data and any information which they require about you or the person(s) for whose benefit you have made this application;
- agree with our Company and each Shareholder of our Company, and our Company agrees with each of its Shareholders, to observe and comply with the Companies Ordinance, the Memorandum of Association and the Articles of Association;
- agree with our Company and each Shareholder of our Company that the Shares in our Company are freely transferable by the holders thereof;
- represent and warrant that you understand that the Shares have not been and will not be registered under the U.S. Securities Act and you are outside the United States (as defined in Regulation S) when completing the Application Form and will be acquiring the Hong Kong Offer Shares in an offshore transaction (as defined in Regulation S) or are a person described in paragraph (h)(3) of rule 902 of Regulation S;
- confirm that you have read the terms and conditions and application procedures set forth in this prospectus and the White Form eIPO designated website at www.eipo.com.hk and agree to be bound by them;
- undertake and agree to accept the Shares applied for, or any lesser number allocated to you under your application; and
- if the laws of any place outside Hong Kong are applicable to your application, agree and warrant that you have complied with all such laws and none of our Company, the Sole Global Coordinator and the Hong Kong Underwriter nor any of their respective officers or advisors will infringe any laws outside Hong Kong as a result of the acceptance of your offer to purchase, or any actions arising from your rights and obligations under the terms and conditions contained in this prospectus and the White Form eIPO designated website at www.eipo.com.hk.

Our Company, the Selling Shareholder, the Sole Global Coordinator, the Sole Sponsor, Sole Bookrunner and the Sole Lead Manager, the Underwriters and their respective directors, officers, employees, partners, agents, advisors and any other parties involved in the Global Offering are entitled to rely on any warranty, representation or declaration made by you in such application.

ADDITIONAL TERMS AND CONDITIONS OF THE HONG KONG PUBLIC OFFERING

2. MULTIPLE APPLICATIONS

- (a) It will be a term and condition of all applications that by completing and delivering an Application Form, you (and if you are joint applicants, each of you jointly and severally):
- (if the application is made for your own benefit) **warrant** that the application is the only application which 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 via the **White Form eIPO** service;
 - (if you are an agent for another person) **warrant** that reasonable enquiries have been made of that other person that the application is the only application which has been or will be made for the benefit of that other person on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC or to the White Form eIPO Service Provider via the **White Form eIPO** service, and that you are duly authorized to sign the Application Form as that other person's agent.
- (b) Except where you are a nominee and provide the information required to be provided in your application, **all** of your applications will be rejected as multiple applications if you, or you and your joint applicant(s) together or any of your joint applicants:
- make more than one application (whether individually or jointly with others) on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC or to the White Form eIPO Service Provider via the **White Form eIPO** service;
 - apply (whether individually or jointly with others) on one **WHITE** Application Form and one **YELLOW** Application Form or on one **WHITE** or **YELLOW** Application Form and give **electronic application instructions** to HKSCC or to the White Form eIPO Service Provider via the **White Form eIPO** service;
 - apply (whether individually or jointly with others) on one **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC or to the White Form eIPO Service Provider via the **White Form eIPO** service for more than 14,550,000 Shares, being 50% of the Shares initially being offered for public subscription under the Hong Kong Public Offering, as more particularly described in the section entitled "Structure of the Global Offering — The Hong Kong Public Offering"; or
 - 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) Offer Shares under the International Offering.
- (c) **All** of your applications will also be rejected as multiple applications if more than one application on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC or to the White Form eIPO Service Provider via the **White Form eIPO** service is made for **your benefit** (including the part of the application made by HKSCC Nominees acting on **electronic application instructions**). If an application is made by an unlisted company and:
- the principal business of that company is dealing in securities; and
 - you exercise statutory control over that company

then the application will be treated as being made for your benefit.

Unlisted company means a company with no equity securities listed on the Stock Exchange.

ADDITIONAL TERMS AND CONDITIONS OF THE HONG KONG PUBLIC OFFERING

Statutory control in relation to a company means you:

- control the composition of the board of directors of the company; or
- control more than half of the voting power of the company; or
- hold more than half of the issued share capital of the company (not counting any part of it which carries no right to participate beyond a specified amount in a distribution of either profits or capital).

3. CIRCUMSTANCES IN WHICH YOU WILL NOT BE ALLOTTED HONG KONG OFFER SHARES

Full details of the circumstances in which you will not be allotted the Hong Kong Offer Shares are set forth in the notes attached to the Application Forms (whether you are making your application by an Application Form or electronically instructing HKSCC to cause HKSCC Nominees to apply on your behalf), and you should read them carefully. You should note in particular the following situations in which the Hong Kong Offer Shares will not be allotted to you:

- **If your application is revoked:**

By completing and submitting an Application Form or **electronic application instructions** to HKSCC or the designated White Form eIPO Service Provider through **White Form eIPO** service, you agree that your application or the application made by HKSCC Nominees or the White Form eIPO Service Provider on your behalf may not be revoked on or before the end of 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 a public holiday in Hong Kong) unless a person responsible for this prospectus under section 40 of the Companies Ordinance (as applied by section 342E of the Companies Ordinance) gives a public notice under that section which excludes or limits the responsibility of that person for this prospectus. This agreement will take effect as a collateral contract with us, and will become binding when you lodge your Application Form or submit your **electronic application instructions** to HKSCC and an application has been made by HKSCC Nominees on your behalf accordingly. This collateral contract will be in consideration of our Company agreeing that it will not offer any Hong Kong Offer Shares to any person on or before the end of 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 a public holiday in Hong Kong) except by means of one of the procedures referred to in this prospectus.

If any supplement to this prospectus is issued, applicant(s) who have already submitted an application may or may not (depending on the information contained in the supplement) be notified that they can withdraw their applications. If applicant(s) have not been so notified, or if applicant(s) have been notified but have not withdrawn their applications in accordance with the procedure to be notified, all applications that have been submitted remain valid and may be accepted. Subject to the above, an application once made is irrevocable and applicants shall be deemed to have applied on the basis of this prospectus as supplemented.

If your application or the application made by HKSCC Nominees or the White Form eIPO Service Provider 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 announcement 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.

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- **Full discretion of our Company, the Sole Global Coordinator or the designated White Form eIPO Service Provider (where applicable) or their agents and nominees to reject or accept your application:**

Our Company, the Sole Global Coordinator (as agent for our Company) or the designated White Form eIPO Service Provider (where applicable), or their respective agents and nominees, have full discretion to reject or accept any application, or to accept only part of any application.

Our Company and the Sole Global Coordinator, in its capacity as our Company's agent, and our agents and nominees do not have to give any reason for any rejection or acceptance.

- **If the allotment of Hong Kong Offer Shares is void:**

The allotment of Hong Kong Offer Shares to you or to HKSCC Nominees (if you give **electronic application instructions** to HKSCC or apply by a **YELLOW** Application Form) will be void if the Listing Committee of the Stock Exchange does not grant permission to list the 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.

- **You will not receive any allotment if:**

- you make multiple applications or suspected multiple applications;
- you or the person for whose benefit you apply for 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) Offer Shares under the International Offering. By filling in any of the Application Forms or applying by giving **electronic application instructions** to HKSCC or to the White Form eIPO Service Provider via the **White Form eIPO** service, you agree not to apply for the Hong Kong Offer Shares as well as Offer Shares in the International Offering. Reasonable steps will be taken to identify and reject applications in the Hong Kong Public Offering from investors who have received Offer Shares in the International Offering, and to identify and reject indications of interest in the International Offering from investors who have received the Hong Kong Offer Shares in the Hong Kong Public Offering;
- your **electronic application instructions** through the **White Form eIPO** service are not completed in accordance with the instructions, terms and conditions set forth in the designated website at www.eipo.com.hk;
- your payment is not made correctly;
- you pay by cheque or banker's cashier order and the cheque or banker's cashier order is dishonored upon its first presentation;
- your Application Form is not completed in accordance with the instructions as stated in the Application Form (if you apply by an Application Form);
- our Company or the Sole Global Coordinator believes that by accepting your application, this would violate the applicable securities or other laws, rules or regulations of the jurisdiction in which your application is completed and/or signed;
- if you apply for more than 50% of the Hong Kong Offer Shares initially being offered in the Hong Kong Public Offering for subscription (that is 14,550,000 Offer Shares);
- the Underwriting Agreements do not become unconditional; or
- the Underwriting Agreements are terminated in accordance with their respective terms.

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You should also note that you may apply for Shares under the Hong Kong Public Offering or indicate an interest for Shares under the International Offering, but may not do both.

4. IF YOUR APPLICATION FOR HONG KONG OFFER SHARES IS SUCCESSFUL (IN WHOLE OR IN PART)

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\$2.38 per Offer Share (excluding brokerage, SFC transaction levy and Stock Exchange trading fee thereon) initially paid on application, or if the conditions of the Hong Kong Public Offering are not fulfilled in accordance with the section headed “Structure of the Global Offering — Conditions of the Hong Kong Public Offering” in this prospectus or if any application is revoked or any allotment pursuant thereto has become void, the application monies, or the appropriate portion thereof, together with the related brokerage, SFC transaction levy and Stock Exchange trading fee, will be refunded, without interest. It is intended that special efforts will be made to avoid any undue delay in refunding application monies where appropriate.

No temporary document of title will be issued in respect of the Shares. No receipt will be issued for sums paid on application but, subject to personal collection as mentioned below, in due course there will be sent to you (or, in the case of joint applicants, to the first-named applicant) by ordinary post, at your own risk, to the address specified on the Application Form:

- (a) for applications on **WHITE** Application Forms or by giving **electronic application instructions** through the **White Form eIPO** service: (i) share certificate(s) for all the Hong Kong Offer Shares applied for, if the application is wholly successful; or (ii) share certificate(s) for the number of the Hong Kong Offer Shares successfully applied for, if the application is partially successful. For wholly successful and partially successful applications on **YELLOW** Application Forms: share certificates for the Shares successfully applied for will be deposited into CCASS as described below; and/or
- (b) for applications on **WHITE** or **YELLOW** Application Forms, refund cheque(s) crossed “Account Payee Only” in favor of the applicant (or, in the case of joint applicants, the first-named applicant) for (i) the surplus application monies for the Offer Shares unsuccessfully applied for, if the application is partially unsuccessful; or (ii) all the application monies, if the application is wholly unsuccessful; and/or (iii) the difference between the Offer Price and the maximum offer price per Share paid on application in the event that the Offer Price is less than the offer price per Share initially paid on application, in each case including brokerage of 1%, SFC transaction levy of 0.003% and Stock Exchange trading fee of 0.005%, attributable to such refund/surplus monies but without interest.

Part of your Hong Kong identity card number/passport number, or, if you are joint applicants, part of the Hong Kong identity card number/passport number of the first-named applicant, provided by you may be printed on your refund cheque, if any. Such data could also be transferred to a third party for refund purpose. Your banker may require verification of your Hong Kong identity card number/passport number before encashment of your refund cheque. Inaccurate completion of your Hong Kong identity card number/passport number may lead to delay in encashment of, or may invalidate, your refund cheque.

Subject to personal collection as mentioned below, refund cheques for surplus application monies (if any) in respect of wholly and partially unsuccessful applications and the difference between the Offer Price and the offer price per Share initially paid on application (if any) under **WHITE** or **YELLOW** Application Forms or by giving **electronic application instructions** through the **White**

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Form eIPO service; and share certificates for wholly and partially successful applicants under **WHITE** Application Forms or by giving **electronic application instructions** through the **White Form eIPO** service are expected to be posted on or around Thursday, July 7, 2011. The right is reserved to retain any share certificate(s) and any surplus application monies pending clearance of cheque(s).

Share certificates will only become valid certificates of title at 8:00 a.m. on the Listing Date provided that the Hong Kong Public Offering has become unconditional in all respects and the right of termination described in the section entitled “Underwriting — Underwriting Arrangements and Expenses — Hong Kong Public Offering — Grounds for Termination” has not been exercised.

(a) If you apply using a WHITE Application Form:

If you apply for 1,000,000 Hong Kong Offer Shares or more on a **WHITE** Application Form and have indicated your intention in your Application Form to collect your refund cheque(s) (where applicable) and/or share certificate(s) (where applicable) from Computershare Hong Kong Investor Services Limited and have provided all information required by your Application Form, you may collect your refund cheque(s) (where applicable) and share certificate(s) (where applicable) from 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, July 7, 2011 or such other date as notified by us in the newspapers as the date of collection/dispatch of e-Refund payment instructions/refund cheques/share certificates. If you are an individual who opts for personal collection, you must not authorize any other person to make collection on your behalf. If you are a corporate applicant who opts for personal collection, you must attend by your authorized representative bearing a letter of authorization from your corporation stamped with your corporation’s chop. Both individuals and authorized representatives (if applicable) must produce, at the time of collection, evidence of identity acceptable to Computershare Hong Kong Investor Services Limited. If you do not collect your refund cheque(s) (where applicable) and/or share certificate(s) (where applicable) personally within the time specified for collection, they will be sent to the address as specified in your Application Form promptly thereafter by ordinary post and at your own risk.

If you apply for less than 1,000,000 Hong Kong Offer Shares or if you apply for 1,000,000 Hong Kong Offer Shares or more but have not indicated on your Application Form that you will collect your refund cheque(s) (where applicable) and/or share certificate(s) (where applicable) in person, your refund cheque(s) (where applicable) and/or share certificate(s) (where applicable) will be sent to the address as specified on your Application Form on Thursday, July 7, 2011, by ordinary post and at your own risk.

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

If you apply for 1,000,000 Hong Kong Offer Shares or more and you have elected on your **YELLOW** Application Form to collect your refund cheque (where applicable) in person, please follow the same instructions as those for **WHITE** Application Form applicants as described above. If you have applied 1,000,000 Hong Kong Offer Shares or above and have not indicated on your Application Form that you will collect your refund cheque (if any) in person, or if you have applied for less than 1,000,000 Hong Kong Offer Shares, your refund cheque (if any) will be sent to the address on your Application Form on the date of dispatch, which is expected to be on Thursday, July 7, 2011 by ordinary post and at your own risk.

ADDITIONAL TERMS AND CONDITIONS OF THE HONG KONG PUBLIC OFFERING

If you apply for Hong Kong Offer Shares using a **YELLOW** Application Form and your application is wholly or partially successful, your share certificate(s) will be issued in the name of HKSCC Nominees and deposited into CCASS for credit to your CCASS Investor Participant stock account or the stock account of your designated CCASS Participant as instructed by you in your Application Form on Thursday, July 7, 2011, or under contingent situation, on any other date as shall be determined by HKSCC or HKSCC Nominees.

If you are applying through a designated CCASS Participant (other than a CCASS Investor Participant):

- for Hong Kong Offer Shares credited to the stock account of your designated CCASS Participant (other than a CCASS Investor Participant), you can check the number of Hong Kong Offer Shares allocated to you with that CCASS Participant.

If you are applying as a CCASS Investor Participant:

- we expect to publish the results of CCASS Investor Participants' applications together with the results of the Hong Kong Public Offering in the manner described in "How to Apply for Hong Kong Offer Shares — Publication of Results" on Thursday, July 7, 2011. You should check the announcement made by our Company and report any discrepancies to HKSCC before 5:00 p.m. on Thursday, July 7, 2011 or such other date as shall be determined by HKSCC or HKSCC Nominees. Immediately after the credit of the Hong Kong Offer Shares to your CCASS Investor Participant stock account, you can check your new account balance 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). HKSCC will also make available to you an activity statement showing the number of Hong Kong Offer Shares credited to your stock account.

(c) If you apply through White Form eIPO

If you apply for 1,000,000 Hong Kong Offer Shares or more through the **White Form eIPO** service by submitting an electronic application to the designated White Form eIPO Service Provider through the designated website at www.eipo.com.hk and your application is wholly or partially successful, you may collect your share certificate(s) (where applicable) in person from 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, July 7, 2011, or such other date as notified by our Company in the newspapers as the date of dispatch/collection of share certificates/ refund cheques and/or e-Refund payment instructions.

If you do not collect share certificate(s) personally within the time specified for collection, they will be sent to the address specified in your application instructions to the designated White Form eIPO Service Provider promptly thereafter, by ordinary post and at your own risk.

If you apply for less than 1,000,000 Hong Kong Offer Shares, your share certificate(s) (where applicable) will be sent to the address specified in your application instructions to the designated White Form eIPO Service Provider through the designated website at www.eipo.com.hk on Thursday, July 7, 2011, by ordinary post and at your own risk.

For applicants who apply through the **White Form eIPO** service by paying the application monies through a single bank account, if the applicant's application is wholly or partially unsuccessful and/or the final Offer Price is lower than the maximum Offer Price initially paid on the applicant's application, e-Refund payment instructions (if any) will be dispatched to the relevant application payment account on or before Thursday, July 7, 2011.

For applicants who apply through the **White Form eIPO** service by paying the application monies through multiple bank accounts, if the applicant's application is wholly or partially

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unsuccessful and/or the final Offer Price is lower than the maximum Offer Price initially paid on the applicant's application, refund cheque(s) will be sent to the address specified in the applicant's application instructions to the designated White Form eIPO Service Provider on or before Thursday, July 7, 2011, by ordinary post and at the applicant's own risk.

Please also note the additional information relating to refund of application monies overpaid, application money underpaid or applications rejected by the designated White Form eIPO Service Provider set forth above in "How to Apply for Hong Kong Offer Shares — How to Apply Using **White Form eIPO** — Additional Information".

(d) If you apply by giving electronic application instructions to HKSCC:

Allocation of Hong Kong Offer Shares

For the purposes of allocating Hong Kong Offer Shares, HKSCC Nominees will not be treated as an applicant. Instead, each CCASS Participant who gives **electronic application instructions** or each person for whose benefit each such instructions is given will be treated as an applicant.

Deposit of Share Certificates into CCASS and Refund of Application Monies

- No temporary documents or evidence of title will be issued. No receipt will be issued for application monies received.
- If your application is wholly or partially successful, your share certificate(s) will be issued in the name of HKSCC Nominees and deposited into CCASS for the credit of the stock account of the CCASS Participant which you have instructed to give **electronic application instructions** on your behalf or your CCASS Investor Participant stock account on Thursday, July 7, 2011, or, in the event of a contingency, on any other date as shall be determined by HKSCC or HKSCC Nominees.
- We expect to make available the Offer Price on Thursday, July 7, 2011 and to make available 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, if supplied), your Hong Kong identity card/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 described in "How to Apply for Hong Kong Offer Shares — Publication of Results" and to publish the basis of allotment of the Hong Kong Offer Shares in the newspapers on Thursday, July 7, 2011. You should check the announcement published by our company and report any discrepancies to HKSCC before 5:00 p.m. on Thursday, July 7, 2011 or such other date as shall be determined by HKSCC or HKSCC Nominees.
- If you have instructed your broker or custodian to give **electronic application instructions** on your behalf, you can also check the number of Hong Kong Offer Shares allotted to you and the amount of refund monies (if any) payable to you with that broker or custodian.
- If you have applied as a CCASS Investor Participant, you can also check the number of Hong Kong Offer Shares allotted to you and the amount of refund monies (if any) payable to you via the CCASS Phone System and the CCASS Internet System (under the procedures contained in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time) on Thursday, July 7, 2011. Immediately after the credit of the Hong Kong Offer Shares to your CCASS Investor Participant stock account and the credit of refund monies to your designated bank account, HKSCC will also make available to you an activity statement showing the number of Hong Kong Offer Shares credited to your CCASS Investor Participant stock account and the amount of refund monies (if any) credited to your designated bank account.

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- Refund of your application monies (if any) in respect of wholly and partially unsuccessful applications and/or difference between the Offer Price and the offer price per Share initially paid on application, in each case including brokerage of 1%, SFC transaction levy of 0.003% and Stock Exchange trading fee of 0.005%, will be credited to your designated bank account or the designated bank account of your broker or custodian on Thursday, July 7, 2011. No interest will be paid thereon.

5. REFUND OF APPLICATION MONIES

If you do not receive any Hong Kong Offer Shares for any reasons, our Company will refund to you your application monies, including the related brokerage of 1%, SFC transaction levy of 0.003% and Stock Exchange trading fee of 0.005%. No interest will be paid thereon. All interest accrued on such monies prior to the date of dispatch of refund cheques will be retained for our benefit.

If your application is accepted only in part, our Company will refund to you the appropriate portion of your application monies, including the related brokerage of 1%, SFC transaction levy of 0.003% and Stock Exchange trading fee of 0.005%, without interest.

If the Offer Price as finally determined is less than HK\$2.38 per Share (excluding brokerage, SFC transaction levy and Stock Exchange trading fee thereon) initially paid on application, our Company will refund to you the surplus application monies, together with the related brokerage of 1%, SFC transaction levy of 0.003% and Stock Exchange trading fee of 0.005% attributable to the surplus application monies, without interest. Please refer to the section headed “How to Apply for Hong Kong Offer Shares — Dispatch/Collection of Share Certificates and Refund Monies”.

In a contingency situation involving a substantial over-subscription, at the discretion of our Company and the Sole Global Coordinator, cheques for applications for certain small denominations of the Hong Kong Offer Shares (apart from successful applications) may not be cleared.

Refund of your application monies (if any) will be made on Thursday, July 7, 2011 in accordance with the various arrangements as described in this section.

6. PERSONAL DATA

The section of the Application Form entitled “Personal Data” applies to any personal data held by our Company and the Hong Kong Share Registrar about you in the same way as it applies to personal data about applicants other than HKSCC Nominees.

7. SECTION 40 OF THE COMPANIES 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 Ordinance (as applied by section 342E of the Companies Ordinance).

The following is the text of a report, prepared for the purpose of incorporation in this prospectus, received from the Company's reporting accountants, KPMG, Certified Public Accountants, Hong Kong.



8th Floor
Prince's Building
10 Chater Road
Central
Hong Kong

24 June 2011

The Directors
CT Environmental Group Limited
Citigroup Global Markets Asia Limited

Dear Sirs,

INTRODUCTION

We set out below our report on the financial information relating to CT Environmental Group Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") including the combined income statements, the combined statements of comprehensive income, the combined statements of changes in equity and the combined cash flow statements of the Group, for each of the years ended 31 December 2008, 2009 and 2010 and the three months ended 31 March 2011 (the "Relevant Period"), and the combined balance sheets of the Group as at 31 December 2008, 2009 and 2010 and 31 March 2011, together with the notes thereto (the "Financial Information"), for inclusion in the prospectus of the Company dated 24 June 2011 (the "Prospectus").

The Company was incorporated in the Cayman Islands on 30 November 2010 as an exempted company with limited liability under the Companies Law, Chapter 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. Pursuant to a Group reorganisation completed on 31 May 2011 (the "Reorganisation") as detailed in the section headed "History and Reorganization" in the Prospectus, the Company became the holding company of the companies now comprising the Group, details of which are set out in Section A below. The Company has not carried on any business since the date of its incorporation save for the aforementioned Reorganisation.

As at the date of this report, no audited financial statements have been prepared for the Company, Bright Sign Enterprises Limited and Guangzhou Haitao Environmental Protection Technology Company Limited (廣州海滔環保科技有限公司)* ("Guangzhou Haitao"), as they either have not carried on any business since the date of incorporation or are investment holding companies or are exempted companies and are not subject to statutory audit requirements under the relevant rules and regulations in the jurisdiction of incorporation.

All companies now comprising the Group have adopted 31 December as their financial year end date. Details of the companies comprising the Group that are subject to audit during the Relevant Period and the names of the respective auditors are set out in Note 1(b) of Section C. The statutory financial statements of these companies were prepared in accordance with the relevant accounting rules and regulations applicable to entities in the countries in which they were incorporated or established.

* *The official names of the entities are in Chinese. The English translation of the name is for reference only.*

The directors of the Company have prepared the combined financial statements of the Group for the Relevant Period in accordance with the basis of preparation set out in Section A below and the accounting policies set out in Section C below (the "Underlying Financial Statements"). The Underlying Financial Statements for each of the years ended 31 December 2008, 2009 and 2010 and the three months ended 31 March 2011 were audited by us in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

The Financial Information has been prepared by the directors of the Company based on the Underlying Financial Statements, with no adjustments made thereon, and in accordance with the applicable disclosure provisions of the Hong Kong Companies Ordinance and the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Listing Rules").

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND REPORTING ACCOUNTANTS

The directors of the Company are responsible for the preparation of the Financial Information that give a true and fair view in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the HKICPA, the disclosure requirements of the Hong Kong Companies Ordinance and the applicable disclosure provisions of the Listing Rules and for such internal control as the directors determine is necessary to enable the preparation of the Financial Information that is free from material misstatement, whether due to fraud or error.

Our responsibility is to form an opinion on the Financial Information based on our procedures.

BASIS OF OPINION

As a basis for forming an opinion on the Financial Information, for the purpose of this report, we have examined the Underlying Financial Statements and have carried out such appropriate procedures as we considered necessary in accordance with Auditing Guideline "Prospectuses and the Reporting Accountant" (Statement 3.340) issued by the HKICPA.

We have not audited any financial statements of the Company, its subsidiaries or the Group in respect of any period subsequent to 31 March 2011.

OPINION

In our opinion, for the purpose of this report, the Financial Information, on the basis of preparation set out in Section A below, gives a true and fair view of the Group's combined results and cash flows for the Relevant Period, and the state of affairs of the Group as at 31 December 2008, 2009 and 2010 and 31 March 2011.

CORRESPONDING FINANCIAL INFORMATION

For the purpose of this report, we have also reviewed the unaudited corresponding interim financial information of the Group comprising the combined income statement, the combined statement of comprehensive income, the combined statement of changes in equity and the combined statement of cash flows for the three months ended 31 March 2010, together with the notes thereon (the "Corresponding Financial Information"), for which the directors are responsible, 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.

The directors of the Company are responsible for the preparation of the Corresponding Financial Information in accordance with the same basis adopted in respect of the Financial Information. Our responsibility is to express a conclusion on the Corresponding Financial Information based on our review.

A review 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 Corresponding Financial Information.

Based on our review, for the purpose of this report, nothing has come to our attention that causes us to believe that the Corresponding Financial Information is not prepared, in all material respects, in accordance with the same basis adopted in respect of the Financial Information.

A BASIS OF PREPARATION

The Company was incorporated in the Cayman Islands on 30 November 2010 as part of the Reorganisation of Xi Zhou Enterprises Hong Kong Limited (“Xi Zhou Enterprises”) in preparation for the listing of the Company’s shares on the Main Board of the Stock Exchange. Xi Zhou Enterprises is the holding company of its subsidiaries, which are mainly engaging in construction of waste water treatment plants, waste water treatment plants operation services and supply of industrial water. Pursuant to the Reorganisation, the Company became the intermediate holding company of Xi Zhou Enterprises and its subsidiaries.

Prior to the incorporation of the Company, Mr Tsui Cham To (“Mr Tsui”) established Guangzhou Xinzhou Environmental Protection Industrial Park Company Limited (廣州新洲環保工業園有限公司) (i) (“Guangzhou Xinzhou”) in the People’s Republic of China (“PRC”) engaging in the provision of facility management service relating to waste water treatment plants operation services (“the Relevant Business”). Guangzhou To Kee Enterprises Development Group Limited (廣州滔記實業發展集團有限公司) (i) (“Guangzhou To Kee”) owned 60% equity interests in Guangzhou Xinzhou prior to the Reorganisation and Mr. Tsui controlled the Relevant Business through his 89% equity interests in Guangzhou To Kee.

Since June 2010, the companies comprising the Group and Guangzhou To Kee underwent a group restructuring. Pursuant to the reorganisation as detailed in the Section headed “History and Reorganization” in the Prospectus, the Relevant Business operated by Guangzhou To Kee was transferred to the companies comprising the Group.

The companies that took part in the Reorganisation now comprising the Group were controlled by the same equity owner, Mr. Tsui before and after the Reorganisation. The control is not transitory and, consequently, there was continuation of the risks and benefits to Mr. Tsui and, therefore, the Reorganisation is considered to be a business combination of entities under common control.

Merger accounting has been applied in the accounting of the Reorganisation. The combined income statements, the combined statements of comprehensive income, the combined statements of changes in equity and the combined cash flow statements of the Group as set out in Section B include the results of operations of the Company and its subsidiaries for the Relevant Period (or where the Company and its subsidiaries were incorporated/established at a date later than 1 January 2008, for the period from the date of incorporation/establishment to 31 March 2011) as if the Reorganisation was completed at the beginning of the Relevant Period. The combined balance sheets of the Group as at 31 December 2008, 2009 and 2010 and 31 March 2011 as set out in Section B have been prepared to present the state of affairs of the Company and its subsidiaries as at those dates as if the Reorganisation was completed at the beginning of the Relevant Period.

All material intra-group transactions and balances have been eliminated on combination.

At the date of this report, the Company has direct or indirect interests in the following subsidiaries, which are private limited liability companies or, if established/incorporated outside Hong Kong, have substantially the same characteristics as a Hong Kong private company. The particulars of these subsidiaries are set out below:

Name of company	Place and date of incorporation / establishment	Issued and fully paid up / registered capital	Attributable equity interest		Principal activities
			Direct	Indirect	
Bright Sign Enterprise Limited	British Virgin Islands 12 October 2010	USD50,000	100%	—	Investment holding
Xi Zhou Enterprises	Hong Kong 28 July 1999	HKD10,000	—	100%	Investment holding
Guangzhou Xinzhou	Guangzhou, the PRC 10 June 2003	RMB10,000,000	—	100%	Provision of facility management service relating to waste water processing
Guangzhou Kaizhou Water Supply Company Limited (廣州凱洲自來水有限公司) (“Guangzhou Kaizhou”) (i)	Guangzhou, the PRC 28 September 2003	HKD20,000,000	—	100%	Supply of industrial water
Guangzhou Xintao Wastewater Treatment Company Limited (廣州新滔水質淨化有限公司) (“Guangzhou Xintao”) (i)	Guangzhou, the PRC 28 September 2003	HKD28,000,000	—	100%	Provision of waste water processing service
Longmen Xilin Wastewater Treatment Company Limited (龍門西林水質淨化有限公司) (“Longmen Xilin”) (i)	Guangzhou, the PRC 21 March 2008	RMB5,000,000	—	100%	Design, construction, operation and maintenance of waste water treatment plant
Huaihua Tianyuan Wastewater Treatment Company Limited (懷化天源污水處理有限公司) (“Huaihua Tianyuan”) (i)&(ii)	Huaihua, the PRC 21 May 2009	RMB10,000,000	—	75%	Design, construction, operation and maintenance of waste water treatment plant
Guangzhou Haitao	Guangzhou, the PRC 9 November 2009	RMB30,000,000	—	99%	Design, construction, operation and maintenance of waste water treatment plant

(i) The official names of these entities are in Chinese. The English translation of the names is for reference only.

(ii) Guangzhou Xintao acquired 60% and 15% of the equity interest in Huaihua Tianyuan from independent third parties on 25 January 2010 and 12 August 2010, respectively.

B COMBINED FINANCIAL INFORMATION

1 Combined income statements

	Section C Note	For the year ended 31 December			For the three months ended 31 March	
		2008	2009	2010	2010	2011
		HKD'000	HKD'000	HKD'000	HKD'000 (Unaudited)	HKD'000
Turnover	3	81,586	137,757	361,444	74,866	71,264
Cost of sales		(35,102)	(46,269)	(174,419)	(44,402)	(19,519)
Gross profit		46,484	91,488	187,025	30,464	51,745
Other revenue	4	67	8,916	14,965	7,841	3,662
General and administrative expenses		(5,852)	(6,237)	(31,225)	(2,945)	(9,191)
Other operating expenses	5	(2,286)	(537)	(1,818)	(177)	(133)
Profit from operations . .		38,413	93,630	168,947	35,183	46,083
Finance costs	6(a)	—	(16,082)	(17,689)	(3,440)	(4,051)
Profit before taxation . .	6	38,413	77,548	151,258	31,743	42,032
Income tax	7	(1,908)	(3,663)	(24,956)	(5,080)	(7,798)
Profit for the year/ period		<u>36,505</u>	<u>73,885</u>	<u>126,302</u>	<u>26,663</u>	<u>34,234</u>
Attributable to:						
- Equity holders of the Company		36,772	74,238	120,874	25,570	33,555
- Non-controlling interests		(267)	(353)	5,428	1,093	679
Profit for the year/ period		<u>36,505</u>	<u>73,885</u>	<u>126,302</u>	<u>26,663</u>	<u>34,234</u>
Earnings per share	10					
Basic (HKD)		<u>0.04</u>	<u>0.08</u>	<u>0.13</u>	<u>0.03</u>	<u>0.04</u>

The accompanying notes form part of the Financial Information.

2 Combined statements of comprehensive income

	For the year ended 31 December			For the three months ended 31 March	
	2008	2009	2010	2010	2011
	HKD'000	HKD'000	HKD'000	HKD'000	HKD'000
Profit for the year/period	36,505	73,885	126,302	26,663	34,234
Other comprehensive income					
Exchange differences on translation of financial statements of overseas subsidiaries	3,886	227	9,330	278	3,391
Total comprehensive income for the year/period	<u>40,391</u>	<u>74,112</u>	<u>135,632</u>	<u>26,941</u>	<u>37,625</u>
Total comprehensive income attributable to:					
Equity holders of the Company . . .	40,499	74,462	129,912	25,838	36,718
Non-controlling interests	(108)	(350)	5,720	1,103	907
Total comprehensive income for the year/period	<u>40,391</u>	<u>74,112</u>	<u>135,632</u>	<u>26,941</u>	<u>37,625</u>

The accompanying notes form part of the Financial Information.

3 Combined balance sheets

	Section C Note	As at 31 December			As at
					31 March
		2008	2009	2010	2011
		HKD'000	HKD'000	HKD'000	HKD'000
Non-current assets					
Property, plant and equipment	12	115,727	108,369	116,773	167,990
Lease prepayments	13	8,388	8,160	8,193	8,213
Intangible assets	14	—	—	9,172	9,171
Investment in equity securities	15	5,670	5,678	—	—
Gross amounts due from customers for contract work	16	4,045	12,808	161,293	162,105
Deferred tax assets	22(a)	—	—	905	527
		<u>133,830</u>	<u>135,015</u>	<u>296,336</u>	<u>348,006</u>
Current assets					
Inventories	17	297	431	353	783
Trade and other receivables	18	257,526	263,594	389,854	223,866
Gross amounts due from customers for contract work	16	806	3,403	12,529	12,815
Cash and cash equivalents	19	29,920	63,571	16,365	57,419
		<u>288,549</u>	<u>330,999</u>	<u>419,101</u>	<u>294,883</u>
Current liabilities					
Trade and other payables	20	87,206	69,201	118,935	105,058
Loans and borrowings	21	37,646	13,628	17,644	19,613
Current taxation	22(a)	—	—	10,542	10,477
		<u>124,852</u>	<u>82,829</u>	<u>147,121</u>	<u>135,148</u>
Net current assets		<u>163,697</u>	<u>248,170</u>	<u>271,980</u>	<u>159,735</u>
Total assets less current liabilities		<u>297,527</u>	<u>383,185</u>	<u>568,316</u>	<u>507,741</u>
Non-current liabilities					
Loans and borrowings	21	245,830	237,020	301,658	301,881
Deferred tax liabilities	22(a)	1,924	5,593	11,656	8,233
		<u>247,754</u>	<u>242,613</u>	<u>313,314</u>	<u>310,114</u>
Net assets		<u>49,773</u>	<u>140,572</u>	<u>255,002</u>	<u>197,627</u>
Equity					
Share capital	23	5,666	5,666	10	10
Reserves	23	41,614	116,076	247,454	189,172
Total equity attributable to equity holders of the Company		<u>47,280</u>	<u>121,742</u>	<u>247,464</u>	<u>189,182</u>
Non-controlling interests	24	2,493	18,830	7,538	8,445
Total equity		<u>49,773</u>	<u>140,572</u>	<u>255,002</u>	<u>197,627</u>

The accompanying notes form part of the Financial Information.

4 Combined statements of changes in equity

	Attributable to equity holders of the Company						
	Share capital	Statutory reserve	Exchange reserve	(Accumulated losses)/ retained profits	Total	Non-controlling interests	Total equity
	HKD'000 (Note 23(a))	HKD'000 (Note 23(b))	HKD'000 (Note 23(b))	HKD'000	HKD'000	HKD'000	HKD'000
At 1 January 2008	5,666	—	7,079	(5,964)	6,781	2,601	9,382
Profit for the year	—	—	—	36,772	36,772	(267)	36,505
Other comprehensive income	—	—	3,727	—	3,727	159	3,886
Total comprehensive income	—	—	3,727	36,772	40,499	(108)	40,391
Transfer to statutory reserve	—	5,825	—	(5,825)	—	—	—
At 31 December 2008	<u>5,666</u>	<u>5,825</u>	<u>10,806</u>	<u>24,983</u>	<u>47,280</u>	<u>2,493</u>	<u>49,773</u>
At 1 January 2009	5,666	5,825	10,806	24,983	47,280	2,493	49,773
Profit for the year	—	—	—	74,238	74,238	(353)	73,885
Other comprehensive income	—	—	224	—	224	3	227
Total comprehensive income	—	—	224	74,238	74,462	(350)	74,112
Set up a subsidiary with non-controlling interests	—	—	—	—	—	16,687	16,687
Transfer to statutory reserve	—	11,652	—	(11,652)	—	—	—
At 31 December 2009	<u>5,666</u>	<u>17,477</u>	<u>11,030</u>	<u>87,569</u>	<u>121,742</u>	<u>18,830</u>	<u>140,572</u>
At 1 January 2010	5,666	17,477	11,030	87,569	121,742	18,830	140,572
Profit for the year	—	—	—	120,874	120,874	5,428	126,302
Other comprehensive income	—	—	9,038	—	9,038	292	9,330
Total comprehensive income	—	—	9,038	120,874	129,912	5,720	135,632
Acquisition of a subsidiary (Note 2)	—	—	—	—	—	8,279	8,279
Acquisition of non-controlling interest without a change of control (Note 24)	—	—	—	2,666	2,666	(25,291)	(22,625)
Reorganisation (Note 23(a))	(5,656)	—	(1,200)	—	(6,856)	—	(6,856)
Transfer to statutory reserve	—	12,449	—	(12,449)	—	—	—
At 31 December 2010	<u>10</u>	<u>29,926</u>	<u>18,868</u>	<u>198,660</u>	<u>247,464</u>	<u>7,538</u>	<u>255,002</u>

The accompanying notes form part of the Financial Information.

	Attributable to equity holders of the Company						
	Share capital	Statutory reserve	Exchange reserve	Retained profits	Total	Non-controlling interests	Total equity
	HKD'000 (Note 23(a))	HKD'000 (Note 23(b))	HKD'000 (Note 23(b))	HKD'000	HKD'000	HKD'000	HKD'000
At 1 January 2010	5,666	17,477	11,030	87,569	121,742	18,830	140,572
Profit for the period (unaudited)	—	—	—	25,570	25,570	1,093	26,663
Other comprehensive income (unaudited) . . .	—	—	268	—	268	10	278
Total comprehensive income (unaudited) . . .	—	—	268	25,570	25,838	1,103	26,941
Acquisition of a subsidiary (Note 2) . . .	—	—	—	—	—	8,279	8,279
At 31 March 2010 (unaudited)	<u>5,666</u>	<u>17,477</u>	<u>11,298</u>	<u>113,139</u>	<u>147,580</u>	<u>28,212</u>	<u>175,792</u>
At 1 January 2011	10	29,926	18,868	198,660	247,464	7,538	255,002
Profit for the period	—	—	—	33,555	33,555	679	34,234
Other comprehensive income	—	—	3,163	—	3,163	228	3,391
Total comprehensive income	—	—	3,163	33,555	36,718	907	37,625
Dividends approved in respect of the previous years	—	—	—	(95,000)	(95,000)	—	(95,000)
At 31 March 2011	<u>10</u>	<u>29,926</u>	<u>22,031</u>	<u>137,215</u>	<u>189,182</u>	<u>8,445</u>	<u>197,627</u>

The accompanying notes form part of the Financial Information.

5 Combined cash flow statements

	For the year ended 31 December			For the three months ended 31 March	
	2008	2009	2010	2010	2011
	HKD'000	HKD'000	HKD'000	HKD'000 (Unaudited)	HKD'000
Cash flow from operating activities					
Profit before taxation	38,413	77,548	151,258	31,743	42,032
Adjustments for:					
- Amortisation of lease prepayments	65	241	245	61	63
- Depreciation	8,219	8,310	8,565	2,105	2,252
- Net loss on disposal of property, plant and equipment	2,286	—	915	57	—
- Gain on acquisition of subsidiary	—	—	(5,592)	(5,592)	—
- Finance income	(67)	(8,916)	(9,035)	(2,249)	(1,885)
- Interest expense	—	16,082	17,689	3,440	4,051
- Foreign exchange (gain)/loss	(2,962)	53	(3,920)	(640)	2,115
- Amortisation of intangible assets	—	—	339	61	95
(Increase)/decrease in trade and other receivables	(6,489)	(7,826)	(29,790)	2,709	(8,291)
Increase in gross amounts due from customers for contract work	(4,851)	(11,359)	(176,907)	(38,026)	(1,098)
Increase/(decrease) in trade and other payables	22,754	(10,291)	68,300	1,194	(7,129)
(Decrease)/increase in inventories	(73)	(134)	78	(290)	(430)
Cash generated from/ (used in) operations	57,295	63,708	22,145	(5,427)	31,775
PRC tax paid	—	—	(11,711)	—	(11,118)
Net cash generated from/ (used in) operating activities	57,295	63,708	10,434	(5,427)	20,657

The accompanying notes form part of the Financial Information.

	For the year ended 31 December			For the three months ended 31 March	
	2008	2009	2010	2010	2011
	HKD'000	HKD'000	HKD'000	HKD'000 (Unaudited)	HKD'000
Net cash generated from/ (used in) operating activities	57,295	63,708	10,434	(5,427)	20,657
Investing activities					
Acquisition of a subsidiary (Note 2)	—	—	51	51	—
Proceeds from disposal of property, plant and equipment.	270	—	38	—	—
Payment for the purchase of property, plant and equipment.	(410)	(775)	(14,409)	(519)	(52,272)
(Advance to)/repayment from related parties	(317,200)	19,957	(86,853)	(16,672)	172,566
Lease prepayments of land-use rights	(8,303)	—	—	—	—
Net cash (used in)/ generated from investing activities	(325,643)	19,182	(101,173)	(17,140)	120,294
Financing activities					
Proceeds from bank loans . .	283,476	—	79,679	—	—
Finance income received . . .	67	65	77	31	25
Dividend paid to the equity holders of the Company . .	—	—	—	—	(95,000)
Interest paid.	—	(16,082)	(17,127)	(3,440)	(4,051)
Repayment of bank loans . . .	—	(33,276)	(19,743)	(3,413)	(1,067)
Net cash generated from/ (used in) financing activities	283,543	(49,293)	42,886	(6,822)	(100,093)
Effect of foreign exchange rate changes	912	54	647	763	196
Net increase/(decrease) in cash and cash equivalents	16,107	33,651	(47,206)	(28,626)	41,054
Cash and cash equivalents at 1 January	13,813	29,920	63,571	63,571	16,365
Cash and cash equivalents at 31 December/ 31 March	29,920	63,571	16,365	34,945	57,419

The accompanying notes form part of the Financial Information.

C NOTES TO THE COMBINED FINANCIAL INFORMATION

1 Significant accounting policies

(a) Statement of compliance

The Financial Information set out in this report has been prepared in accordance with HKFRSs, which collective term includes Hong Kong Accounting Standards and related interpretations, promulgated by the HKICPA. Further details of the significant accounting policies adopted are set out in the remainder of this Section C.

The HKICPA has issued a number of new and revised HKFRSs. For the purpose of preparing this Financial Information, the Group has adopted all these new and revised HKFRSs to the Relevant Period, except for any new standards or interpretations that are not yet effective for the accounting period ended 31 March 2011. The revised and new accounting standards and interpretations issued but not yet effective for the accounting period beginning 1 April 2011 are set out in Note 30.

The Financial Information also complies with the disclosure requirements of the Hong Kong Companies Ordinance and the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The accounting policies set out below have been applied consistently to all periods presented in the Financial Information.

(b) Basis of preparation and presentation

The Financial Information comprises the Company and its subsidiaries and has been prepared using the merger basis of accounting as if the Group had always been in existence, as further explained in Section A and set out in Note 1 (e) (ii).

Details of the companies comprising the Group that are subject to statutory audit during the Relevant Period and the names of the respective auditors are set out below:

<u>Name of companies</u>	<u>Financial period</u>	<u>Statutory auditors</u>
Xi Zhou Enterprises . . .	Years ended 31 December 2008, 2009 and 2010	RIW C.P.A. Limited, Certified Public Accountants (Practising) 正衡會計師事務所有限公司
Guangzhou Kaizhou . . .	Years ended 31 December 2008, 2009 and 2010	Guangzhou Zengxin Certified Public Accountants Co.Ltd. (i) 廣州市增信會計師事務所有限公司
Guangzhou Xintao	Years ended 31 December 2008, 2009 and 2010	Guangzhou Zengxin Certified Public Accountants Co.Ltd. (i) 廣州市增信會計師事務所有限公司
Huaihua Tianyuan	Period from 21 May 2009 (date of incorporation) to 31 December 2009 and the year ended 31 December 2010	Hunan Taixin Certified Public Accountants Co.Ltd. (i) 湖南泰信會計師事務所有限公司
Guangzhou Xinzhou . . .	Year ended 31 December 2010	Guangzhou Zengxin Certified Public Accountants Co.Ltd. (i) 廣州市增信會計師事務所有限公司
Longmen Xilin	Years ended 31 December 2008, 2009 and 2010	Guangzhou Zengxin Certified Public Accountants Co.Ltd. (i) 廣州市增信會計師事務所有限公司

(i) The official names of these entities are in Chinese. The English translation of the names is for reference only.

The statutory financial statements of Xi Zhou Enterprises were prepared in accordance with HKFRSs and the statutory financial statements of the other entities in the PRC were prepared in accordance with the relevant accounting rules and regulations applicable to entities in the PRC.

(c) Basis of measurement

The Financial Information is presented in Hong Kong dollar (“HKD”), rounded to the nearest thousand except for per share data. Renminbi (“RMB”) is the functional currency of the Group’s major operating entities. The Financial Information has been prepared on the historical cost basis except for financial assets at fair value through profit or loss as explained in Note 1(g). The methods used to measure fair value are set out in Note 25 (f).

(d) Use of estimates and judgments

The preparation of the Financial Information in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. 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.

Judgements made by management in the application of HKFRSs that have significant effect on the Financial Information and major sources of estimation uncertainty are discussed in Note 29.

(e) Consolidation and combination

(i) Subsidiaries and non-controlling interests

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account. The financial statements of subsidiaries are included in the Financial Information from the date that control commences until the date that control ceases. The accounting policies of subsidiaries have been changed when necessary to align them with the policies adopted by the Group.

Non-controlling interests represent the equity in a subsidiary not attributable directly or indirectly to the Group, and in respect of which the Group has not agreed any additional terms with the holders of those interests which would result in the Group as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability. For each business combination, the Group measures any non-controlling interests at their proportionate share of the subsidiary’s net identifiable assets.

Non-controlling interests are presented in the combined balance sheets within equity, separately from equity attributable to the equity holders of the Company. Non-controlling interests in the results of the Group are presented on the face of the combined income statements and the combined statements of comprehensive income as an allocation of the total profit or loss and total comprehensive income for the year between non-controlling interests and the equity holders of the Company. Loans from holders of non-controlling interests and other contractual obligations towards these holders are presented as financial liabilities in the combined balance sheets in accordance with Note 1(g)(iv) depending on the nature of the liability.

Changes in the Group's interests in a subsidiary that do not result in a loss of control are accounted for as equity transactions, whereby adjustments are made to the amounts of the controlling and non-controlling interests within equity to reflect the change in relative interests, but no adjustments are made to goodwill and no gain or loss is recognised.

(ii) Business combinations

The acquisition method of accounting is used to account for the acquisition of subsidiaries by the Group. Under the purchase method of accounting, subsidiaries are fully combined from the date on which control is transferred to the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. Transaction costs in connection with a business combination are expensed as incurred.

Business combinations arising from transfers of interests in entities that are under the control of the shareholder that controls the entities are accounted for as if the acquisition had occurred at the beginning of the earliest comparative period presented or, if later, at the date that common control was established. The assets and liabilities acquired are recognised at the carrying amounts at the date of the completion of the combination. The components of equity of the acquired entities are added to the same components within Group equity. Any cash paid for the acquisition is recognised directly in equity.

(f) Translation of functional currency

Foreign currency transactions during the year are translated at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the balance sheet date. Exchange gains and losses are recognised in profit or loss.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates. The results of foreign operations are translated into HKD at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Balance sheet items are translated into HKD at the closing foreign exchange rates at the balance sheet date. The resulting exchange differences are recognised in other comprehensive income and accumulated separately in equity in the exchange reserve.

(g) Non-derivative financial instruments

A financial instrument is recognised if the Group becomes a party to the contractual provisions of the instrument.

The Group derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Group is recognised as a separate asset or liability.

The Group derecognises a financial liability when its contractual obligations are discharged, cancelled or expired.

Financial assets and liabilities are offset and the net amount presented in the combined balance sheets when, and only when, the Group has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

Non-derivative financial instruments comprise gross amounts due from customers for contract work, trade and other receivables, cash and cash equivalents, loans and borrowings and trade and other payables.

Non-derivative financial instruments are recognised initially at fair value plus, for instruments not at fair value through profit and loss, any directly attributable transaction costs, except as described below. Subsequent to initial recognition, non-derivative financial instruments are measured as described below.

Details of the recognition and measurement of the financial instruments of the Group are summarised below:

(i) Gross amounts due from customers for contract work

Gross amounts due from customers for contract work are initially recognised at fair value. Subsequent to initial recognition, gross amounts due from customers for contract work are stated at amortised cost using the effective interest method.

(ii) Trade and other receivables

Trade and other receivables are initially recognised at fair value and thereafter stated at amortised cost less allowance for impairment of doubtful debts, except where the receivables are interest-free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less allowance for impairment of doubtful debts.

(iii) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand.

(iv) Loans and borrowings

Loans and borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between the amount initially recognised and redemption value being recognised in profit or loss over the period of the borrowings, together with any interest and fees payable, using the effective interest method.

(v) Trade and other payables

Trade and other payables are initially recognised at fair value. Trade and other payables are subsequently stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

(h) Investments in equity securities

Investments in equity securities that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are recognised in the combined balance sheet at cost less impairment losses (see Note 1(o)).

(i) Goodwill

Goodwill represents the excess of

- (i) the aggregate of the fair value of the consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value of the Group's previously held equity interest in the acquiree; over

- (ii) the Group's interest in the net fair value of the acquiree's identifiable assets and liabilities measured as at the acquisition date.

When (ii) is greater than (i), then this excess is recognised immediately in profit or loss as a gain on a bargain purchase.

Goodwill is stated at cost less accumulated impairment losses. Goodwill arising on a business combination is allocated to each cash-generating unit, or groups of cash generating units, that is expected to benefit from the synergies of the combination and is tested annually for impairment (see note 1(o)).

On disposal of a cash generating unit during the year, any attributable amount of purchased goodwill is included in the calculation of the profit or loss on disposal.

(j) Property, plant and equipment

(i) Recognition and measurement

Items of property, plant and equipment are measured at cost less accumulated depreciation and impairment losses (Note 1(o)).

Cost includes expenditures that are directly attributable to the acquisition of an asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for its intended use, and the costs of dismantling and removing the items and restoring the site on which they are located.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Construction in progress represents property, plant and equipment under construction, and is stated at cost less impairment losses (Note 1(o)).

Cost comprises direct costs of construction during the construction period. Capitalisation of these costs ceases and the construction in progress is transferred to property, plant and equipment when all of the activities necessary to prepare the assets for their intended use are substantially completed.

The gain and loss on disposal of an item of property, plants and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment, and is recognised net within other revenue/other operating expenses in profit or loss.

(ii) Subsequent costs

The cost of replacing part of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group and its cost can be measured reliably. The costs of the day-to-day serving of property, plant and equipment are recognised in profit and loss as incurred.

(iii) Depreciation

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment less their estimated residual value.

The estimated useful lives of other property, plant and equipment are as follows:

- Buildings and other infrastructure 20 years
- Machinery 10 - 15 years
- Office equipment & others 5 years

No depreciation is provided in respect of construction in progress until it is substantially completed and ready for its intended use. Upon completion and commencing for operation, depreciation will be provided at the appropriate rates specified above.

Depreciation methods, useful lives and residual value are reviewed at each reporting date and adjusted if appropriate.

(k) Intangible assets

(i) Recognition and measurement

Intangible assets that are acquired by the Group and have finite useful lives are measured at cost less accumulated amortisation and accumulated impairment losses (Note 1(o)).

(ii) Amortisation

Amortisation is based on the cost of an asset less its residual value.

Amortisation is recognised in profit or loss on a straight-line basis over the estimated useful lives of intangible assets from the date that they are available for use. The estimated useful lives for the current and comparative periods are as follows:

- Waste water treatment plants operating right 25 years

Amortisation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

(l) Lease prepayments

Lease prepayments represent cost of land use rights paid to the PRC government authorities. Land use rights are stated as cost less accumulated amortisation and impairment losses (Note 1(o)). Amortisation is recognised in profit or loss on a straight-line basis over the respective period of the rights which are 35 years.

(m) Construction contracts

Construction contracts are contracts specifically negotiated with a customer for the construction of an asset or a group of assets, where the customer is able to specify the major structural elements of the design. When the outcome of a construction contract can be estimated reliably, contract costs are recognised as an expense by reference to the stage of completion of the contract at the end of the reporting period. When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately. When the outcome of a construction contract cannot be estimated reliably, contract costs are recognised as an expense in the period in which they are incurred.

Construction contracts in progress at the end of the reporting period are recorded at the net amount of costs incurred plus recognised profit less recognised losses and progress billings, and are presented in the combined balance sheet as the "Gross amounts due from customers for contract work" (as an asset) or the "Gross amounts due to customers for contract work" (as a liability), as applicable. Amounts received before the related work is performed are presented as "Advances received" under "Trade and other payables".

(n) Inventories

Inventories are measured at the lower of cost and net realisable value. The cost of inventories is based on the weighted average cost principle, and includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition.

When inventories are consumed, the carrying value of those inventories is recognised as an expense in profit or loss.

(o) Impairment of assets

(i) Impairment of investments in equity securities, trade and other receivables and gross amounts due from customers for contract work.

Investments in equity securities, other current and non-current receivables and gross amounts due from customers for contract work that are stated at cost or amortised cost or are classified as available-for-sale securities are reviewed at the end of each reporting period to determine whether there is objective evidence of impairment. Objective evidence of impairment includes observable data that comes to the attention of the Group about one or more of the following loss events:

- significant financial difficulty of the debtor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- it becoming probable that the debtor will enter bankruptcy or other financial reorganisation;
- significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; and
- a significant or prolonged decline in the fair value of an investment in an equity securities below its cost.

If any such evidence exists, any impairment loss is determined and recognised as follows:

- For unquoted equity securities carried at cost, the impairment loss is measured as the difference between the carrying amount of the financial asset and the estimated future cash flows, discounted at the current market rate of return for a similar financial asset where the effect of discounting is material. Impairment losses for equity securities carried at cost are not reversed.
- For trade and other current receivables, gross amounts due from customers for contract work and other financial assets carried at amortised cost, the impairment loss is measured as 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 (i.e. the effective interest rate computed at initial recognition of these assets), where the effect of discounting is material. This assessment is made collectively where financial assets carried at amortised cost share similar risk characteristics, such as similar past due status, and have not been individually assessed as impaired. Future cash flows for financial assets which are assessed for impairment collectively are based on historical loss experience for assets with credit risk characteristics similar to the collective group.

If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through profit or loss. A reversal of an impairment loss shall not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior years.

Impairment losses are written off against the corresponding assets directly, except for impairment losses recognised in respect of trade debtors included within trade and other receivables, whose recovery is considered doubtful but not remote. In this case, the impairment losses for doubtful debts are recorded using an allowance account. When the Group is satisfied that recovery is remote, the amount considered irrecoverable is written off against trade debtors directly and any amounts held

in the allowance account relating to that debt are reversed. Subsequent recoveries of amounts previously charged to the allowance account are reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly are recognised in profit or loss.

(ii) Impairment of other assets

Internal and external sources of information are reviewed at each balance sheet date to identify indications that the following assets may be impaired or, an impairment loss previously recognised no longer exists or may have decreased:

- property, plant and equipment; and
- intangible assets.

If any such indication exists, the asset's recoverable amount is estimated. In addition, for goodwill, intangible assets that are not yet available for use and intangible assets that have indefinite useful lives, the recoverable amount is estimated annually whether or not there is any indication of impairment.

- Calculation of recoverable amount

The recoverable amount of an asset is the greater of its fair value less costs to sell 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. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

- Recognition of impairment losses

An impairment loss is recognised in profit or loss if the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (or group of units) and then, to reduce the carrying amount of the other assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs to sell, or value in use, if determinable.

- Reversals of impairment losses

In respect of assets other than goodwill, an impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is not reversed.

A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognised.

(p) Cash and cash equivalent

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into

known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents for the purpose of the combined cash flow statement.

(q) Provisions and other contingent liability

Provisions are recognised for other liabilities of uncertain timing or amount when the Group has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

(r) Employee benefits

(i) Short term employee benefits and contributions to defined contribution retirement plans

Salaries, annual bonuses, paid annual leave, contributions to defined contribution retirement plans and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

(s) Turnover

Turnover is measured at the fair value of the consideration received or receivable. Provided it is probable that the economic benefits will flow to the Group and the turnover and costs, if applicable, can be measured reliably, turnover is recognised in profit or loss as follows:

(i) Construction contracts

When the outcome of a construction contract can be estimated reliably, contract revenue and expenses are recognised in profit or loss in proportion to the stage of completion of the contract.

The stage of completion is assessed by reference to surveys of work performed. When the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised only to the extent of contract costs incurred that are likely to be recoverable. An expected loss on a contract is recognised immediately in profit or loss.

(ii) Finance income

Finance income is recognised as it accrues using the effective interest method.

(iii) Service concession arrangement

Turnover relating to construction services under a service concession arrangement is recognised based on the stage of completion of the work performed, consistent with the Group's accounting policy on recognising revenue on construction contracts (see (i) above).

Operation or service turnover is recognised in the period in which services are provided by the Group. When the Group provides more than one service in a service concession arrangement the consideration received is allocated by reference to the relative fair values of the services delivered.

(iv) Turnover from supply of industrial water

Turnover from supply of industrial water is recognised when industrial water is supplied to customers.

(v) Turnover from waste water treatment plants operation services

Turnover from provision of waste water treatment plants operation services is recognised when the service is rendered.

(t) Government grants

Government grants are recognised in the balance sheet initially when there is reasonable assurance that they will be received and that the group will comply with the conditions attaching to them. Grants that compensate the group for expenses incurred are recognised as revenue in profit or loss on a systematic basis in the same periods in which the expenses are incurred. Grants that compensate the group for the cost of an asset are deducted from the carrying amount of the asset and consequently are effectively recognised in profit or loss over the useful life of the asset by way of reduced depreciation expense.

(u) Borrowing costs

Borrowing costs that are directly attributable to the acquisition or construction which necessarily takes a substantial period of time to get ready for its intended use are capitalised as part of the cost of that asset. Other borrowing costs are expensed in the period in which they are incurred.

(v) Income tax

Income tax for the year/period comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in profit or loss except to the extent that they relate to business combination, or items recognised in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognised in other comprehensive income or directly in equity, respectively.

Current tax is the expected tax payable on the taxable income for the year/period, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when

determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination), and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the Group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at each balance sheet date and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities, if the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

- in the case of current tax assets and liabilities, the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or
- in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:
 - the same taxable entity; or
 - different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

(w) *Related parties*

For the purposes of the Financial Information, a party is considered to be related to the Group if:

- (i) the party has the ability, directly or indirectly through one or more intermediaries, to control the Group or exercise significant influence over the Group in making financial and operating policy decisions, or has joint control over the Group;
- (ii) the Group and the party are subject to common control;
- (iii) the party is an associate of the Group or a joint venture in which the Group is a venturer;
- (iv) the party is a member of key management personnel of the Group or the Group's parent, or, a close family member of such an individual, or is an entity under the control, joint control or significant influence of such individual;
- (v) the party is a close family member of a party referred to in (i) or is an entity under the control, joint control or significant influence of such individuals; or

(vi) the party is a post-employment benefit plan which is for the benefit of employees of the Group or of any entity that is a related party of the Group.

Close family members of an individual are those family members who may be expected to influence, or be influenced by, that individual in their dealings with the entity.

(x) Segment reporting

Operating segments, and the amounts of each segment item reported in the Financial Information, are identified from the Financial Information provided regularly to the Group's most senior executive management for the purposes of allocating resources to, and assessing the performance of the Group's various lines of business and geographical locations.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

2 Acquisition of a subsidiary

On 25 January 2010, the Group obtained control of Huaihua Tianyuan by acquiring 60% of the equity interests in Huaihua Tianyuan for a consideration of RMB 6 million, equivalent to HKD 6,826,000. The management considers this as the acquisition of a business. Huaihua Tianyuan is a company providing waste water processing service to local government.

The following summaries the nature of consideration transferred, and the recognised amounts of assets acquired and liabilities assumed at the acquisition date:

Identified assets acquired and liabilities assumed of Huaihua Tianyuan at the respective acquisition dates:

	Note	Pre-acquisition Carrying amount HKD'000	Fair value adjustments HKD'000	Recognised values on acquisition HKD'000
Property, plant and equipment	12	18	—	18
Trade and other receivables		29,731	—	29,731
Cash and cash equivalents		51	—	51
Trade and other payables		(16,430)	—	(16,430)
Intangible assets		—	9,216	9,216
Deferred tax liabilities		—	(1,889)	(1,889)
Net identifiable assets		<u>13,370</u>	<u>7,327</u>	<u>20,697</u>
Share of net identifiable assets				12,418
Total consideration				<u>(6,826)</u>
Gain on acquisition of a subsidiary	4			<u>5,592</u>
Cash acquired				<u>51</u>
	Section B			
Net cash inflow	Note 5			<u>51</u>

Consideration has been settled as at 31 March 2011.

On 12 August 2010 the Group acquired an additional 15% interest in Huaihua Tianyuan for RMB 1.5 million, equivalent to HKD 1,707,000, increasing its ownership from 60% to 75%. The carrying amount of Huaihua Tianyuan's net assets in the combined Financial Information on the date of the acquisition was HKD 25,350,000. The Group recognised a decrease in non-controlling interests of HKD 3,803,000, and an increase in retained earnings of HKD 2,096,000. (Note 24)

3 Turnover

The Group is principally engaged in the construction of waste water treatment plants, waste water treatment plants operation services and supply of industrial water.

Turnover represents the revenue for construction contracts, revenue from waste water treatment plants operation services and finance income under the Build-Operate-Transfer ("BOT") arrangements, revenue from supply of industrial water, and revenue from provision of waste water treatment plants operation services under the non-BOT arrangements. Further details regarding the Group's BOT arrangements are disclosed in Note 16. The amount of each significant category of revenue recognised in turnover during the Relevant Period is as follows:

	Year ended 31 December			Three months ended 31 March	
	2008	2009	2010	2010	2011
	HKD'000	HKD'000	HKD'000	HKD'000	HKD'000
				(Unaudited)	
Provision of waste water project construction services	4,694	11,605	131,067	37,670	—
Provision of waste water treatment plants operation services under the BOT arrangements	—	1,249	14,861	1,301	7,586
Supply of industrial water . .	17,793	27,409	37,002	6,876	10,758
Provision of waste water treatment plants operation services under the non-BOT arrangements . . .	58,983	96,950	171,753	28,344	50,411
Finance income	116	544	6,761	675	2,509
	<u>81,586</u>	<u>137,757</u>	<u>361,444</u>	<u>74,866</u>	<u>71,264</u>

The Group has transactions with the PRC local government authorities which in aggregate exceeded 10% of the Group's turnover. Turnover from provision of waste water project construction services and provision of waste water treatment plants operation services under the BOT arrangements and finance income derived from local government authorities in the PRC for each of the years ended 31 December 2008, 2009 and 2010 and the three months ended 31 March 2010 and 2011 amounted to HKD 4,810,000, HKD 13,398,000, HKD 152,689,000, HKD 39,646,000 (unaudited) and HKD 10,095,000 respectively. The turnover is included in "waste water project construction and operations service" segment as disclosed in Note 11 to the Financial Information. Details of concentrations of credit risk arising from these customers are set out in Note 25(a).

Further details regarding the Group's principal activities are disclosed in Note 11.

4 Other revenue

	Year ended 31 December			Three months ended 31 March	
	2008	2009	2010	2010	2011
	HKD'000	HKD'000	HKD'000	HKD'000	HKD'000
				(Unaudited)	
Finance income generated from amounts due from related parties (Note 27) . .	—	8,851	8,958	2,218	1,860
Finance income generated from banks	67	65	77	31	25
Gain on acquisition of a subsidiary	—	—	5,592	5,592	—
Government grants*	—	—	—	—	1,777
Others	—	—	338	—	—
	<u>67</u>	<u>8,916</u>	<u>14,965</u>	<u>7,841</u>	<u>3,662</u>

Government grants represented the environmental protection fund for environmental technological improvements granted by Economic, Trade and Technology Information Bureau and Environmental Protection Administration of Zengcheng City respectively.

5 Other operating expenses

	Year ended 31 December			Three months ended 31 March	
	2008	2009	2010	2010	2011
	HKD'000	HKD'000	HKD'000	HKD'000	HKD'000
				(Unaudited)	
Loss arising from disposal of property, plant and equipment	2,286	—	915	57	—
Penalty	—	—	404	1	29
Others	—	537	499	119	104
	<u>2,286</u>	<u>537</u>	<u>1,818</u>	<u>177</u>	<u>133</u>

6 Profit before taxation

Profit before taxation is arrived at after charging:

(a) Finance costs

	Year ended 31 December			Three months ended 31 March	
	2008	2009	2010	2010	2011
	HKD'000	HKD'000	HKD'000	HKD'000	HKD'000
				(Unaudited)	
Interest costs	—	16,082	17,689	3,440	4,051

(b) Staff costs

	Year ended 31 December			Three months ended 31 March	
	2008	2009	2010	2010	2011
	HKD'000	HKD'000	HKD'000	HKD'000	HKD'000
Salaries, wages and other benefits	4,030	4,377	6,751	1,405	2,504
Contributions to defined contribution plan	144	185	253	52	116
	<u>4,174</u>	<u>4,562</u>	<u>7,004</u>	<u>1,457</u>	<u>2,620</u>

Staff costs included directors' remuneration (Note 8).

Pursuant to the relevant labour rules and regulations in the PRC, the PRC subsidiaries participate in a defined contribution retirement benefit scheme (the "Scheme") organised by the local authority whereby the PRC subsidiaries are required to make contributions to the Scheme based on certain percentages of the eligible employee's salaries. The local government authority is responsible for the entire pension obligations payable to the retired employees.

The Group operates a Mandatory Provident Fund Scheme ("the MPF scheme") under the Hong Kong Mandatory Provident Fund Schemes Ordinance for employees employed under the jurisdiction of the Hong Kong Employment Ordinance. The MPF scheme is a defined contribution retirement plan administered by independent trustees. Under the MPF scheme, the employer and its employees are each required to make contributions to the plan at 5% of the employee's relevant income, subject to a cap of monthly relevant income of HKD20,000. Apart from the mandatory contributions, the employer would make monthly voluntary contributions. The aggregate of the mandatory and voluntary contributions made by the employer represents 5% of the basic salary of the employees. Mandatory contributions to the plan vest immediately. Where there are employees who leave the Group prior to vesting fully in the voluntary contributions, the contributions payable by the Group are reduced by the amount of forfeited contributions.

The Group has no other obligations for payments of retirement and other post-retirement benefits of employees other than the contributions described above.

(c) *Other items*

	Year ended 31 December			Three months ended 31 March	
	2008	2009	2010	2010	2011
	HKD'000	HKD'000	HKD'000	HKD'000	HKD'000
				(Unaudited)	
Cost of construction service.	4,203	10,401	116,601	33,514	—
Cost of inventories*	12,869	17,557	32,943	5,215	10,938
Depreciation and amortisation	8,284	8,551	9,149	2,227	2,410
Operating lease charges	20	20	18	6	178
Research and development expenses	115	175	214	25	98
Auditors' remuneration	15	25	1,678	—	753
IPO expenses	—	—	8,046	—	3,975
	<u>25,506</u>	<u>36,729</u>	<u>168,649</u>	<u>40,987</u>	<u>18,352</u>

* For the years ended 31 December 2008, 2009 and 2010 and the three months ended 31 March 2010 and 2011, cost of inventories represented raw materials consumed during the supply of industrial water and the provision of waste water treatment plants operation services.

7 **Income tax in the combined income statements**(a) *Income tax expenses in the combined income statements represents:*

	Year ended 31 December			Three months ended 31 March	
	2008	2009	2010	2010	2011
	HKD'000	HKD'000	HKD'000	HKD'000	HKD'000
				(Unaudited)	
Current tax — PRC income tax					
Provision for PRC income tax	—	—	17,074	2,570	5,376
Provision for PRC dividend withholding tax	—	—	5,054	—	5,570
Deferred tax					
Origination and reversal of temporary differences	1,908	3,663	2,828	2,510	(3,148)
Income tax expenses	<u>1,908</u>	<u>3,663</u>	<u>24,956</u>	<u>5,080</u>	<u>7,798</u>

(b) Reconciliation between income tax expenses and accounting profit at applicable tax rates:

	Year ended 31 December			Three months ended 31 March	
	2008	2009	2010	2010	2011
	HKD'000	HKD'000	HKD'000	HKD'000	HKD'000
Profit before taxation	38,413	77,548	151,258	31,743	42,032
Notional tax on profit before taxation calculated at the standard tax rates applicable at the jurisdictions concerned					
(i)	9,823	19,461	38,706	7,953	10,931
Effect of non-deductible expenses	1,062	203	2,127	95	961
Effect of non-taxable income	—	—	(1,398)	(1,398)	—
Effect of preferential tax rates on current tax payable (ii)	(10,922)	(19,556)	(18,251)	(2,584)	(6,410)
Recognition of previously unrecognised tax losses . .	—	—	(702)	—	—
Effect of tax loss unrecognised	166	205	—	26	—
Under provision of prior year	—	—	—	—	488
PRC dividend withholding tax (iii)	1,779	3,350	4,474	988	1,828
Income tax expenses	1,908	3,663	24,956	5,080	7,798

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

No provision was made for Hong Kong Profits Tax as the Group did not earn income subject to Hong Kong Profits Tax for the years ended 31 December 2008, 2009 and 2010 and the three months ended 31 March 2010 and 2011. The payments of dividends by Hong Kong companies are not subject to any Hong Kong withholding tax. Effective from 1 January 2008, the PRC's statutory income tax rate is 25%.

- (ii) Some of the Group's PRC subsidiaries are entitled to the following PRC preferential tax treatments:

Prior to 1 January 2008, Guangzhou Kaizhou and Guangzhou Xintao, being production-type foreign investment enterprises, were each entitled to a two-year full exemption from income tax followed by a three-year 50% reduction in income tax rate (the "2+3 tax holiday") starting from the first profit-making year from a PRC tax perspective.

On 16 March 2007, the Fifth Plenary Session of the Tenth National People's Congress passed the Corporate Income Tax Law of the PRC (the "New Tax Law") which became effective on 1 January 2008. The New Tax Law and its relevant regulations grandfather the 2+3 tax holidays until they expire, and require them to commence on 1 January 2008 should they be not started earlier. Accordingly, Guangzhou Kaizhou and Guangzhou Xintao commenced their 2+3 tax holidays in 2008 and are subject to income tax at 0% for 2008 and 2009, 12.5% from 2010 to 2012 and 25% from 2013 onwards.

Guangzhou Haitao, Longmen Xilin and Huaihua Tianyuan, being entities engaged in waste water treatment, are each entitled to a tax holiday of three-year full exemption followed by three-year 50% exemption on income tax on income derived from such activities (the "3+3 tax holiday") starting from the year in which the project first

generates operating revenue. Guangzhou Haitao, Longmen Xilin and Huaihua Tianyuan started their 3+3 tax holidays in 2010, 2009 and 2010 respectively. Accordingly, Guangzhou Haitao and Huaihua Tianyuan are subject to income tax at 0% from 2010 to 2012, 12.5% from 2013 to 2015, and 25% from 2016 onwards; and Longmen Xilin is subject to income tax at 0% from 2009 to 2011, 12.5% from 2012 to 2014, and 25% from 2015 onwards.

(iii) PRC dividend withholding tax

According to the New Tax Law and its implementation rules, dividends receivable by non-PRC corporate residents from PRC enterprises are subject to withholding income tax at 10%, unless reduced by tax treaties or arrangements, for profits earned since 1 January 2008. Pursuant to the Sino-Hong Kong Double Tax Arrangement and the related regulations, a qualified Hong Kong tax resident will be liable for a reduced withholding tax rate of 5% on dividends from a PRC enterprise if the Hong Kong tax resident is the "beneficial owner" and holds 25% or more of the equity interest of the PRC enterprise. As all of the Group's PRC subsidiaries are directly or indirectly owned by a Hong Kong incorporated subsidiary, a rate of 5% is applicable to the calculation of the PRC dividend withholding tax.

8 Directors' remuneration

Details of Directors' remuneration of the Group are disclosed as follows:

	Year ended 31 December 2008				
	Directors' fees	Salaries, allowances and benefits in kind	Contribution to defined contribution retirement plans	Discretionary bonuses	Total
	HKD'000	HKD'000	HKD'000	HKD'000	HKD'000
Executive directors					
Mr. Tsui Cham To	—	451	13	—	464
Mr. Xu Shubiao	—	120	1	10	131
Mr. Xu Juwen	—	—	—	—	—
Mr. Xu Zitao	—	—	—	—	—
Mr. Lu Yili	—	—	—	—	—
Sub-total	—	571	14	10	595
Non-executive directors					
Mr. Xu Zhencheng	—	—	—	—	—
Mr. Liu Yung Chau	—	—	—	—	—
Mr. Lam Ka Wai	—	—	—	—	—
Sub-total	—	—	—	—	—
Total	—	571	14	10	595

Year ended 31 December 2009

	Directors' fees	Salaries, allowances and benefits in kind	Contribution to defined contribution retirement plans	Discretionary bonuses	Total
	HKD'000	HKD'000	HKD'000	HKD'000	HKD'000
Executive directors					
Mr. Tsui Cham To	—	394	14	—	408
Mr. Xu Shubiao	—	121	2	10	133
Mr. Xu Juwen	—	—	—	—	—
Mr. Xu Zitao	—	—	—	—	—
Mr. Lu Yili	—	—	—	—	—
Sub-total	—	515	16	10	541
Non-executive directors					
Mr. Xu Zhencheng	—	—	—	—	—
Mr. Liu Yung Chau	—	—	—	—	—
Mr. Lam Ka Wai	—	—	—	—	—
Sub-total	—	—	—	—	—
Total	—	515	16	10	541

Year ended 31 December 2010

	Directors' fees	Salaries, allowances and benefits in kind	Contribution to defined contribution retirement plans	Discretionary bonuses	Total
	HKD'000	HKD'000	HKD'000	HKD'000	HKD'000
Executive directors					
Mr. Tsui Cham To	—	391	15	6	412
Mr. Xu Shubiao	—	123	4	10	137
Mr. Xu Juwen	—	—	—	—	—
Mr. Xu Zitao	—	67	4	—	71
Mr. Lu Yili	—	—	—	—	—
Sub-total	—	581	23	16	620
Non-executive directors					
Mr. Xu Zhencheng	—	—	—	—	—
Mr. Liu Yung Chau	—	—	—	—	—
Mr. Lam Ka Wai	—	—	—	—	—
Sub-total	—	—	—	—	—
Total	—	581	23	16	620

Three months ended 31 March 2010 (unaudited)

	Directors' fees	Salaries, allowances and benefits in kind	Contribution to defined contribution retirement plans	Discretionary bonuses	Total
	HKD'000	HKD'000	HKD'000	HKD'000	HKD'000
Executive directors					
Mr. Tsui Cham To	—	101	1	6	108
Mr. Xu Shubiao	—	30	1	10	41
Mr. Xu Juwen	—	—	—	—	—
Mr. Xu Zitao	—	16	1	5	22
Mr. Lu Yili	—	—	—	—	—
Sub-total	—	147	3	21	171
Non-executive directors					
Mr. Xu Zhencheng	—	—	—	—	—
Mr. Liu Yung Chau	—	—	—	—	—
Mr. Lam Ka Wai	—	—	—	—	—
Sub-total	—	—	—	—	—
Total	—	147	3	21	171

Three months ended 31 March 2011

	Directors' fees	Salaries, allowances and benefits in kind	Contribution to defined contribution retirement plans	Discretionary bonuses	Total
	HKD'000	HKD'000	HKD'000	HKD'000	HKD'000
Executive directors					
Mr. Tsui Cham To	—	78	2	6	86
Mr. Xu Shubiao	—	33	2	10	45
Mr. Xu Juwen	—	—	—	—	—
Mr. Xu Zitao	—	16	2	5	23
Mr. Lu Yili	—	—	—	—	—
Sub-total	—	127	6	21	154
Non-executive directors					
Mr. Xu Zhencheng	—	—	—	—	—
Mr. Liu Yung Chau	—	—	—	—	—
Mr. Lam Ka Wai	—	—	—	—	—
Sub-total	—	—	—	—	—
Total	—	127	6	21	154

During the Relevant Period, no amount was paid or payable by the Group to the directors or any of the five highest paid individuals set out in Note 9 below as an inducement to join or upon joining the Group or as compensation for loss of office. There was no arrangement under which a director waived or agreed to waive any remuneration during the Relevant Period.

9 Individuals with highest emoluments

Of the five individuals with highest emoluments, two also were the directors of the Company during the Relevant Period whose emoluments are disclosed in Note 8. The emoluments in respect of the other three are as follows:

	Year ended 31 December			Three months ended 31 March	
	2008	2009	2010	2010	2011
	HKD'000	HKD'000	HKD'000	HKD'000	HKD'000
Salaries and other emoluments	782	653	505	151	165
Retirement scheme of defined contribution	21	22	15	5	5
Total	803	675	520	156	170

The emoluments of these remaining individuals with the highest emoluments are within the following bands:

	Year ended 31 December			Three months ended 31 March	
	2008	2009	2010	2010	2011
	Number of individuals	Number of individuals	Number of individuals	Number of individuals (unaudited)	Number of individuals
HKD					
Nil - 1,000,000	3	3	3	3	3

10 Earnings per share

(a) Basic earnings per share

The calculation of basic earnings per share for the Relevant Period is based on the profit attributable to equity holders of the Company for each of the years ended 31 December 2008, 2009 and 2010 and the three months ended 31 March 2010 and 2011, and on the assumption that 900,000,000 shares of the Company are in issue and issuable, comprising 1,000,000 share in issue at the date of the Prospectus and 899,000,000 shares to be issued pursuant to the capitalisation issue as set out in Appendix VI to the Prospectus as if the shares were outstanding throughout the entire Relevant Period.

11 Operating segment

The Group manages its business by divisions, which are organised by business lines. In a manner consistent with the way in which information is reported internally to the Group's most senior executive management for the purposes of resource allocation and performance assessment, the Group has presented the following three reportable segments. No operating segments have been aggregated to form the following reportable segments.

- Supply of industrial water: this segment engages in the provision of industrial water supply service to generate turnover from the service.
- Provision of waste water treatment plants operation services: this segment engages in the operation of waste water treatment plants under the non-BOT arrangement to generate turnover from operation services.
- Waste water project construction and operation service: this segment engages in the construction and operation of waste water treatment plants in connection with BOT arrangement to generate turnover from construction and operation services as well as the finance income.

(a) Segment results

For the purposes of assessing segment performance and allocating resources between segments, the group's senior executive management monitors the results attributable to each reportable segment on the following bases:

Revenue and expenses are allocated to the reportable segments with reference to sales generated by those segments and the expenses incurred by those segments or which otherwise arise from the depreciation or amortisation of assets attributable to those segments.

The measure used for reporting segment profit is “adjusted EBITDA” i.e. “adjusted profit before interest, depreciation, amortisation and gain on acquisition of a subsidiary”. To arrive at adjusted EBITDA the Group’s earnings are further adjusted for items not specifically attributed to individual segments, such as directors’ and auditors’ remuneration and other head office or corporate administration costs.

In addition to receiving segment information concerning adjusted EBITDA, management is provided with segment information concerning revenue, finance income and costs from cash balances and borrowings managed directly by the segments, depreciation, amortisation and impairment losses and additions to non-current segment assets used by the segments in their operations.

Information regarding the Group’s reportable segments as provided to the Group’s most senior executive management for the purposes of resource allocation and assessment of segment performance for the years ended 31 December 2008, 2009 and 2010 and the three months ended 31 March 2010 and 2011 is set out below.

	Supply of industrial water				
	Year ended			Three months ended	
	2008	2009	2010	2010	2011
	HKD'000	HKD'000	HKD'000	HKD'000	HKD'000
	(Unaudited)				
Revenue from external customers	17,793	27,409	37,002	6,876	10,758
Reportable segment revenue.	17,793	27,409	37,002	6,876	10,758
Reportable profit before tax (adjusted EBITDA)	11,976	21,728	29,193	5,217	7,979
Finance income	12	3,420	3,469	865	801
Interest cost	—	(4,502)	(3,975)	(963)	(857)
Depreciation and amortisation for the year/period	(1,925)	(1,976)	(2,000)	(495)	(516)
Gain on acquisition of a subsidiary	—	—	—	—	—

	Provision of waste water treatment plant operation service				
	Year ended			Three months ended	
	2008	2009	2010	2010	2011
	HKD'000	HKD'000	HKD'000	HKD'000	HKD'000
					(Unaudited)
Revenue from external customers	<u>58,983</u>	<u>96,950</u>	<u>171,753</u>	<u>28,344</u>	<u>50,411</u>
Reportable segment revenue.	58,983	96,950	171,753	28,344	50,411
Reportable profit before tax (adjusted EBITDA)	36,638	70,930	117,053	13,962	39,680
Finance income	55	5,496	5,561	1,384	1,079
Interest cost	—	(11,580)	(10,235)	(2,477)	(2,145)
Depreciation and amortisation for the year/period	(6,359)	(6,568)	(6,755)	(1,670)	(1,763)
Gain on acquisition of a subsidiary	—	—	5,592	5,592	—
	Waste water project construction and operation services				
	Year ended			Three months ended	
	2008	2009	2010	2010	2011
	HKD'000	HKD'000	HKD'000	HKD'000	HKD'000
					(Unaudited)
Revenue from external customers	<u>4,810</u>	<u>13,398</u>	<u>152,689</u>	<u>39,646</u>	<u>10,095</u>
Reportable segment revenue.	4,810	13,398	152,689	39,646	10,095
Reportable profit before tax (adjusted EBITDA)	606	1,481	27,705	10,593	3,930
Finance income	—	—	5	—	5
Interest cost	—	—	(3,479)	—	(1,049)
Depreciation and amortisation for the year/period	—	(7)	(394)	(62)	(131)
Gain on acquisition of a subsidiary	—	—	—	—	—

	Total				
	Year ended			Three months ended	
	2008	2009	2010	2010	2011
	HKD'000	HKD'000	HKD'000	HKD'000	HKD'000
	(Unaudited)				
Revenue from external customers	81,586	137,757	361,444	74,866	71,264
Reportable segment revenue.	81,586	137,757	361,444	74,866	71,264
Reportable profit before tax (adjusted EBITDA)	49,220	94,139	173,951	29,772	51,589
Finance income	67	8,916	9,035	2,249	1,885
Interest cost	—	(16,082)	(17,689)	(3,440)	(4,051)
Depreciation and amortisation for the year/period	(8,284)	(8,551)	(9,149)	(2,227)	(2,410)
Gain on acquisition of a subsidiary	—	—	5,592	5,592	—

(b) Reconciliations of reportable segment turnover and profits

	Year ended 31 December			Three months ended 31 March	
	2008	2009	2010	2010	2011
	HKD'000	HKD'000	HKD'000	HKD'000	HKD'000
	(Unaudited)				
Turnover					
Reportable segment turnover	81,586	137,757	361,444	74,866	71,264
Combined turnover	81,586	137,757	361,444	74,866	71,264

	Year ended 31 December			Three months ended 31 March	
	2008	2009	2010	2010	2011
	HKD'000	HKD'000	HKD'000	HKD'000 (Unaudited)	HKD'000
Profit					
Reportable profit before tax	49,220	94,139	173,951	29,772	51,589
Gain on acquisition of a subsidiary	—	—	5,592	5,592	—
Depreciation and amortisation	(8,284)	(8,551)	(9,149)	(2,227)	(2,410)
Interest costs	—	(16,082)	(17,689)	(3,440)	(4,051)
Finance income	67	8,916	9,035	2,249	1,885
Unallocated head office and corporate expenses	(2,590)	(874)	(10,482)	(203)	(4,981)
Combined profit before taxation	<u>38,413</u>	<u>77,548</u>	<u>151,258</u>	<u>31,743</u>	<u>42,032</u>

(c) Geographic information

Analysis of the Group's turnover and results by geographical market has not been presented as substantially all of the Group's assets are located in the PRC.

12 Property, plant and equipment

	Buildings and other infrastructure	Machinery	Office equipment and others	Construction in progress	Total
	HKD'000	HKD'000	HKD'000	HKD'000	HKD'000
Cost:					
At 1 January 2008	66,773	73,696	655	451	141,575
Additions	—	278	132	—	410
Disposal	—	(3,175)	—	—	(3,175)
Exchange adjustments	4,127	4,555	41	27	8,750
At 31 December 2008	70,900	75,354	828	478	147,560
Additions	—	52	642	81	775
Transfer from construction in progress	479	8	—	(487)	—
Exchange adjustments	113	119	1	1	234
At 31 December 2009	71,492	75,533	1,471	73	148,569
Additions through acquisition of a subsidiary (Note 2)	—	—	18	—	18
Additions	212	1,833	1,061	11,286	14,392
Transfer from construction in progress	719	60	22	(801)	—

	Buildings and other infrastructure	Machinery	Office equipment and others	Construction in progress	Total
	HKD'000	HKD'000	HKD'000	HKD'000	HKD'000
Disposal	—	(1,410)	(100)	—	(1,510)
Exchange adjustments	2,486	2,628	52	2	5,168
At 31 December 2010	74,909	78,644	2,524	10,560	166,637
Additions	11,934	22,892	58	17,305	52,189
Transfer from construction in progress	16,069	—	118	(16,187)	—
Exchange adjustments	814	844	25	109	1,792
At 31 March 2011	103,726	102,380	2,725	11,787	220,618
Accumulated depreciation:					
At 1 January 2008	(8,898)	(13,551)	(307)	—	(22,756)
Charge for the year	(3,193)	(4,896)	(130)	—	(8,219)
Written-off on disposals	—	619	—	—	619
Exchange adjustments	(577)	(879)	(21)	—	(1,477)
At 31 December 2008	(12,668)	(18,707)	(458)	—	(31,833)
Charge for the year	(3,223)	(4,908)	(179)	—	(8,310)
Exchange adjustments	(23)	(33)	(1)	—	(57)
At 31 December 2009	(15,914)	(23,648)	(638)	—	(40,200)
Charge for the year	(3,265)	(5,002)	(298)	—	(8,565)
Written-off on disposals	—	494	6	—	500
Exchange adjustments	(630)	(940)	(29)	—	(1,599)
At 31 December 2010	(19,809)	(29,096)	(959)	—	(49,864)
Charge for the period	(859)	(1,305)	(88)	—	(2,252)
Exchange adjustments	(204)	(298)	(10)	—	(512)
At 31 March 2011	(20,872)	(30,699)	(1,057)	—	(52,628)
Carrying amount:					
At 31 December 2008	58,232	56,647	370	478	115,727
At 31 December 2009	55,578	51,885	833	73	108,369
At 31 December 2010	55,100	49,548	1,565	10,560	116,773
At 31 March 2011	82,854	71,681	1,668	11,787	167,990

- (i) All property, plant and equipment owned by the Group are located in the PRC.
- (ii) The carrying amount of property, plant and equipment pledged to secure the Group's bank loans as at 31 December 2008, 2009 and 2010 and 31 March 2011 is set out as below:

	At 31 December			At 31 March
	2008	2009	2010	2011
	HKD'000	HKD'000	HKD'000	HKD'000
Carrying amount of pledged property, plant and equipment	2,523	2,396	2,306	2,294

13 Lease prepayments

	<u>Land use rights</u>
	HKD'000
Cost:	
At 1 January 2008	—
Additions	8,303
Exchange adjustments	<u>150</u>
At 31 December 2008	8,453
Exchange adjustments	<u>13</u>
At 31 December 2009	8,466
Exchange adjustments	<u>294</u>
At 31 December 2010	8,760
Exchange adjustments	<u>89</u>
At 31 March 2011	8,849
Accumulated amortisation:	
At 1 January 2008	—
Charge for the year	<u>(65)</u>
At 31 December 2008	(65)
Charge for the year	<u>(241)</u>
At 31 December 2009	(306)
Charge for the year	(245)
Exchange adjustments	<u>(16)</u>
At 31 December 2010	(567)
Charge for the period	(63)
Exchange adjustments	<u>(6)</u>
At 31 March 2011	(636)
Carrying amount:	
At 31 December 2008	<u>8,388</u>
At 31 December 2009	<u>8,160</u>
At 31 December 2010	<u>8,193</u>
At 31 March 2011	<u>8,213</u>

Lease prepayments represent prepayments of land use rights premium to the PRC authorities by the Group. The Group's leasehold lands are located in the PRC, on which its manufacturing plants were built. The Group is granted the land use rights for a period of 35 years. At 31 March 2011, the remaining period of the land use rights was 32 years.

As at 31 December 2008, 2009 and 2010 and 31 March 2011, the carrying amount of lease prepayments pledged to secure the Group's bank loans is set out as below:

	At 31 December			At 31 March
	2008	2009	2010	2011
	HKD'000	HKD'000	HKD'000	HKD'000
Carrying amount of pledged lease prepayments	<u>8,388</u>	<u>8,160</u>	<u>8,193</u>	<u>8,213</u>

Amortisation of lease prepayments for land use rights is included in the general and administrative expenses.

14 Intangible assets

	Waste water treatment plants operating right
	HKD'000
Cost:	
At 1 January 2010	—
Addition acquired through business combination	9,216
Exchange adjustments	<u>303</u>
At 31 December 2010	9,519
Exchange adjustments	<u>97</u>
At 31 March 2011	9,616
Amortisation:	
At 1 January 2010	—
Amortisation	(339)
Exchange adjustments	<u>(8)</u>
At 31 December 2010	(347)
Amortisation	(95)
Exchange adjustments	<u>(3)</u>
At 31 March 2011	(445)
Carrying amount:	
At 1 January 2010	<u>—</u>
At 31 December 2010	<u>9,172</u>
At 31 March 2011	<u>9,171</u>

The intangible assets represent the fair value of waste water treatment plants operating right (the "Operating Right") acquired. The Operating Right was deemed to be definite life intangible asset as the BOT arrangement stated that the operation period for Huaihua Tianyuan is 25 years. It is expected to generate long-term net cash income to the Group.

The recoverable amount of the Operating Right is estimated based on its future cash inflow forecast and using an after-tax discount rate of 17.13% during the period. The recoverable amount is estimated to be higher than the carrying amount, and no impairment is required.

Amortisation of intangible assets is included in the general and administrative expenses.

15 Investment in equity securities

	At 31 December			At 31 March
	2008	2009	2010	2011
	HKD'000	HKD'000	HKD'000	HKD'000
Unlisted investment, at cost	4,711	4,711	—	—
Exchange adjustment	959	967	—	—
	<u>5,670</u>	<u>5,678</u>	<u>—</u>	<u>—</u>

On 9 July 2003, the Group acquired 5% equity interest in Guangzhou Xintao Credit Company Limited ("Xintao Credit") (廣州市信滔信用擔保有限公司). The investment has been disposed of to Guangzhou To Kee on 17 December 2010 at a consideration of RMB 5 million (equivalent to HKD 5,839,000).

16 Gross amounts due from customers for contract work

	At 31 December			At 31 March
	2008	2009	2010	2011
	HKD'000	HKD'000	HKD'000	HKD'000
Gross amounts due from customers for contract work				
- Non-current	4,045	12,808	161,293	162,105
- Current	806	3,403	12,529	12,815
	<u>4,851</u>	<u>16,211</u>	<u>173,822</u>	<u>174,920</u>

Certain subsidiaries of the Group entered into service concession arrangements with the grantors. Pursuant to the service concession arrangements, the Group has to design, construct and operate and manage waste-water treatment plants in the PRC for a period of 25 to 30 years. The Group has the obligation to maintain the waste water treatment plants in good condition. The grantors guarantee the Group will receive minimum annual payments in connection with the arrangements. Upon expiry of the concession periods, the waste water treatment plants and the related facilities will be transferred to the local government authorities.

The service concession arrangements do not contain renewal options. The standard rights of the grantors to terminate the agreements include failure of the Group to construct or operate the waste water treatment plants and in the event of a material breach of the terms of the agreements. The standard rights of the Group to terminate the agreements include failure to receive payments for waste water treatment service from the grantors and in the event of a material breach of the terms of the agreements.

Revenue relates to the construction services provided in constructing the waste water treatment plants is recognised as “Gross amounts due from customers for contract work” in the Financial Information.

“Gross amounts due from customers for contract work” represent revenue from construction under BOT arrangements and bear interest at rate of 5.94% per annum for each of the years ended 31 December 2008, 2009 and 2010 and the three months ended 31 March 2011. The amounts are not yet due for payment and will be settled by revenue to be generated during the operating periods of the BOT arrangements.

17 Inventories

	At 31 December			At 31 March
	2008	2009	2010	2011
	HKD'000	HKD'000	HKD'000	HKD'000
Raw materials	<u>297</u>	<u>431</u>	<u>353</u>	<u>783</u>

Inventories mainly comprise materials consumed during the supply of industrial water, provision of waste water processing service and waste water project operation service.

Amounts of inventories recognised as expenses were HKD 12,869,000, HKD 17,557,000, HKD 32,942,000, HKD 5,215,000 (unaudited) and HKD 10,938,000 respectively for the years ended 31 December 2008, 2009 and 2010 and the three months ended 31 March 2010 and 2011.

18 Trade and other receivables

	At 31 December			At 31 March
	2008	2009	2010	2011
	HKD'000	HKD'000	HKD'000	HKD'000
Trade receivables from third parties	6,879	15,221	33,226	43,660
Prepayments and other receivables	2,146	5,149	5,790	6,592
Amounts due from related parties	<u>248,501</u>	<u>243,224</u>	<u>350,838</u>	<u>173,614</u>
	<u>257,526</u>	<u>263,594</u>	<u>389,854</u>	<u>223,866</u>

An ageing analysis of trade receivables (net of allowance) by due date is as follows:

	At 31 December			At 31 March
	2008	2009	2010	2011
	HKD'000	HKD'000	HKD'000	HKD'000
Current	6,879	13,549	29,479	29,215
Less than 3 months past due	—	1,672	3,564	13,120
Less than 6 months past due	—	—	183	1,325
	<u>6,879</u>	<u>15,221</u>	<u>33,226</u>	<u>43,660</u>

Past due trade receivables are amounts due from the People's Government of Zengcheng City and Huaihua City regarding the waste water construction and operation service provided by Guangzhou Haitao and Huaihua Tianyuan.

No impairment losses in respect of trade receivables were recorded at each of the balance sheet date as the Group is satisfied with the recoverability of the amounts.

Receivables that were neither past due nor impaired relate to a wide range of customers for whom there was no recent history of default.

Receivables that were past due but not impaired relate to certain independent customers that have a good track record with the Group. Based on past experience, management believes that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral over these balances.

19 Cash and cash equivalents

	At 31 December			At 31 March
	2008	2009	2010	2011
	HKD'000	HKD'000	HKD'000	HKD'000
Cash on hand	651	873	397	711
Cash at bank	<u>29,269</u>	<u>62,698</u>	<u>15,968</u>	<u>56,708</u>
	<u>29,920</u>	<u>63,571</u>	<u>16,365</u>	<u>57,419</u>

The majority of the cash at bank and on hand are denominated in RMB. RMB is not a freely convertible currency and the remittance of funds out of the PRC is subject to the exchange restrictions imposed by the PRC government.

20 Trade and other payables

	At 31 December			At 31 March
	2008	2009	2010	2011
	HKD'000	HKD'000	HKD'000	HKD'000
Trade payables	1,637	5,128	9,447	6,336
Other payables and accruals	85,569	64,073	109,488	98,722
	<u>87,206</u>	<u>69,201</u>	<u>118,935</u>	<u>105,058</u>

The credit period granted by the suppliers ranges from 30 days to 90 days.

An ageing analysis of trade payables by due date is as follows:

	At 31 December			At 31 March
	2008	2009	2010	2011
	HKD'000	HKD'000	HKD'000	HKD'000
Due within one month or on demand	1,154	3,554	4,508	4,625
Due after one month but within 3 months	449	1,520	4,918	1,220
Due after 3 months but within 6 months .	34	54	21	491
	<u>1,637</u>	<u>5,128</u>	<u>9,447</u>	<u>6,336</u>

21 Loans and borrowings

	At 31 December			At 31 March
	2008	2009	2010	2011
	HKD'000	HKD'000	HKD'000	HKD'000
Bank loans				
Within 1 year or on demand	37,646	13,628	17,644	19,613
Sub-total	<u>37,646</u>	<u>13,628</u>	<u>17,644</u>	<u>19,613</u>
After 1 year but within 2 years	34,471	13,628	19,414	19,613
After 2 year but within 5 years	134,254	223,392	227,354	228,607
After 5 years	77,105	—	54,890	53,661
Sub-total	<u>245,830</u>	<u>237,020</u>	<u>301,658</u>	<u>301,881</u>
Total	<u>283,476</u>	<u>250,648</u>	<u>319,302</u>	<u>321,494</u>

All the loans and borrowings as at 31 December 2008, 2009 and 2010 and 31 March 2011 were floating-rate loans denominated in RMB borrowed from Industrial and Commercial Bank of China.

The bank loans carried floating interest rates of 6.048%, 5.472%, 5.662% to 5.940% and 5.662% to 6.600% as at 31 December 2008, 2009 and 2010 and 31 March 2011, respectively.

At each balance sheet date, all the loans and borrowings were secured and guaranteed by the charge rights of water supply in Guangzhou Kaizhou (供水收費權), the charge rights of waste water processing (污水處理收費權) in Guangzhou Xintao and Guangzhou Haitao and the Group's buildings and land-use rights. Details of the secured assets are disclosed in Notes 12 and 13.

Certain bank loans amounted to HKD 283,476,000, HKD 250,648,000 and HKD 239,623,000 as at 31 December 2008, 2009 and 2010 respectively were guaranteed by certain related parties as disclosed in Note 27(c). Among the guaranteed bank loans, banks loans amounted to HKD 204,102,000, HKD 180,463,000 and HKD 171,227,000 were also guaranteed by a third party as at 31 December 2008, 2009 and 2010 respectively.

22 Income tax in the combined balance sheets

(a) Current taxation in the combined balance sheets represents:

	HKD'000
At 1 January 2010	—
Provision for PRC income tax (Note 7(a))	17,074
Provision for PRC dividend withholding tax (Note 7(a))	5,054
PRC income tax paid	(11,711)
Exchange adjustment	125
At 31 December 2010	10,542
Provision for PRC income tax (Note 7(a))	5,376
Provision for PRC dividend withholding tax (Note 7(a))	5,570
PRC income tax paid	(6,022)
PRC dividend withholding tax paid	(5,096)
Exchange adjustment	107
At 31 March 2011	<u>10,477</u>

The components of deferred tax assets / (liabilities) recognised in the combined balance sheets and the movements during the year/period are as follows:

Deferred tax arising from	PRC dividend withholding tax	Revenue recognition	Intangible assets	Unused tax loss	Total
As at 1 January 2008	—	—	—	—	—
(Charged) to profit or loss . .	(1,779)	(129)	—	—	(1,908)
Exchange adjustment	(15)	(1)	—	—	(16)
As at 31 December 2008 . . .	<u>(1,794)</u>	<u>(130)</u>	<u>—</u>	<u>—</u>	<u>(1,924)</u>
As at 1 January 2009	(1,794)	(130)	—	—	(1,924)
(Charged) to profit or loss . .	(3,350)	(313)	—	—	(3,663)
Exchange adjustment	(6)	—	—	—	(6)
As at 31 December 2009 . . .	<u>(5,150)</u>	<u>(443)</u>	<u>—</u>	<u>—</u>	<u>(5,593)</u>
As at 1 January 2010	(5,150)	(443)	—	—	(5,593)
Debited/(charged) to profit or loss	580	(4,291)	—	884	(2,828)
Addition through acquisition	—	—	(1,889)	—	(1,889)
Exchange adjustment	(285)	(116)	(62)	21	(441)
As at 31 December 2010 . . .	<u>(4,855)</u>	<u>(4,850)</u>	<u>(1,951)</u>	<u>905</u>	<u>(10,751)</u>
As at 1 January 2011	(4,855)	(4,850)	(1,951)	905	(10,751)
Debited/(charged) to profit or loss	3,742	(207)	—	(387)	3,148
Exchange adjustment	(42)	(50)	(20)	9	(103)
As at 31 March 2011	<u>(1,155)</u>	<u>(5,107)</u>	<u>(1,971)</u>	<u>527</u>	<u>(7,706)</u>

The deferred taxation is recognised on the combined balance sheets as follows:

	At 31 December			At 31 March
	2008	2009	2010	2011
	HKD'000	HKD'000	HKD'000	HKD'000
Deferred tax liabilities recognised on the combined balance sheets	(1,924)	(5,593)	(11,656)	(8,233)
Deferred tax assets recognised on the combined balance sheets	—	—	905	527
	<u>(1,924)</u>	<u>(5,593)</u>	<u>(10,751)</u>	<u>(7,706)</u>

23 Capital reserve and dividends

(a) Capital

As disclosed in Section A, the Financial Information has been prepared under the merger accounting method in that financial statements of the companies comprising the Group during the Relevant Period were combined as if the Group existed on 1 January 2008.

For the purpose of this report, the capital of the Group as at 31 December 2008 and 2009 and 31 March 2010 represented the capital of Xi Zhou Enterprises and 60% equity interest in Guangzhou Xinzhou.

Pursuant to the Reorganisation, the Group acquired 60% equity interests in Guangzhou Xinzhou from the company controlled by Mr. Tsui at a consideration of HKD 6,856,000 and Guangzhou Xinzhou became a subsidiary of the Group since 3 June 2010.

The capital of the Group as at 31 December 2010 and 31 March 2011 represented the capital of Xi Zhou Enterprises which was then holding company of the companies now comprising the Group.

Pursuant to the Reorganisation completed on 31 May 2011, the Company became the holding company of the companies now comprising the Group.

(b) Nature and purpose of reserve

(i) PRC statutory reserves

Pursuant to the Articles of Association of the PRC subsidiaries now comprising the Group, appropriations to the general reserve fund were made at a certain percentage of profit after taxation determined in accordance with the accounting rules and regulations of the PRC. The percentage for this appropriation was decided by the Directors of the respective subsidiaries. This reserve fund can be utilised in setting off accumulated losses or increasing capital of the subsidiaries and is non-distributable other than in liquidation.

Appropriation to general reserve fund had been approved by the Directors of the PRC subsidiaries for the Relevant Period.

(ii) Foreign currency translation reserve

The exchange reserve comprises all relevant exchange differences arising from the translation of the financial statements of operations with functional currency other than HKD. The reserve is dealt with in accordance with the accounting policy set out in Note 1(f).

(c) Distributability of reserve

The aggregate amounts of reserves available for distribution to equity holders of the Company, at 31 December 2008, 2009 and 2010 and 31 March 2011 were HKD 24,983,000, HKD 87,569,000, HKD 198,660,000 and HKD 137,215,000 respectively. The profit distribution of Guangzhou Haitao is subject to certain covenants in a loan agreement entered into in 2010. The profit can be distributed after a full repayment of bank loan and related interests or the approval of bank. As at 31 March 2011, the accumulated profit of Guangzhou Haitao was HKD 1,355,000.

(d) Dividends

During the period ended 31 March 2011, Xi Zhou Enterprises declared and paid dividend of HKD 95,000,000 to its then equity holders. All dividends declared during the period represent dividends attributable to previous financial years. Xi Zhou Enterprises subsequently declared and paid dividends of HKD 87,000,000, HKD 6,000,000 and HKD 19,489,000 on 1 April 2011, 19 April 2011 and 30 May 2011, respectively, to its then equity holders.

(e) Capital management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for the shareholder and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

The Group uses different measures including adjusted net debt-to-equity ratios to monitor its capital. Net debt is calculated as total borrowings (including loans and borrowings), as shown in the combined balance sheets less cash and bank deposits. Total capital is calculated as equity holder's funds (i.e. total equity attributable to equity holder of the Company), as shown in the combined balance sheets.

	At 31 December			At 31 March
	2008	2009	2010	2011
	HKD'000	HKD'000	HKD'000	HKD'000
Loans and borrowings (Note 21)	283,476	250,648	319,302	321,494
Total borrowings	283,476	250,648	319,302	321,494
Less:				
Cash and cash equivalents (Note 19)	<u>29,920</u>	<u>63,571</u>	<u>16,365</u>	<u>57,419</u>
Net debt	253,556	187,077	302,937	264,075
Total equity	<u>47,280</u>	<u>121,742</u>	<u>247,464</u>	<u>189,182</u>
Adjusted net debt-to-equity ratio	<u>5.36</u>	<u>1.54</u>	<u>1.22</u>	<u>1.40</u>

Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.

24 Acquisition of non-controlling interests

On 3 June 2010 the Group acquired an additional 40% interest in Guangzhou Xinzhou for RMB 4 million, equivalent to HKD 4,571,000, increasing its ownership from 60% to 100%. The carrying amount of Guangzhou Xinzhou's net assets in the Financial Information on the date of the acquisition was HKD 5,390,000. The Group recognised a decrease in non-controlling interests of HKD 2,156,000 and a decrease in retained earnings of HKD 2,415,000.

On 12 August 2010 the Group acquired an additional 15% interest in Huaihua Tianyuan for RMB 1.5 million, equivalent to HKD 1,707,000, increasing its ownership from 60% to 75%. The carrying amount of Huaihua Tianyuan's net assets in the Financial Information on the date of the acquisition was HKD 25,350,000. The Group recognised a decrease in non-controlling interests of HKD 3,803,000 and an increase in retained earnings of HKD 2,096,000. (Note 2)

On 28 July 2010 the Group acquired an additional 48% interest from Guangzhou To Kee, an related party, in Guangzhou Haitao for RMB 14.5 million, equivalent to HKD 16,347,000, increasing its ownership from 51% to 99%. The carrying amount of Guangzhou Haitao's net assets in the Financial Information on the date of the acquisition was HKD 40,275,000. The Group recognised a decrease in non-controlling interests of HKD 19,332,000 and an increase in retained earnings of HKD 2,985,000.

25 Financial risk management and fair value

Exposure to credit and liquidity arises in normal course of the Group's business. The Group's exposure to these risks and the financial risk management policies and practices used by the Group to manage these risks are described below.

(a) Credit risk

Management has a credit policy in place and the exposures to credit risks are monitored on an ongoing basis. Debts are usually due within 30 days from the date of billing.

Debtors of the Group represent receivables in respect of revenue from supply of industrial water, revenue from waste water processing service and revenue from waste-water treatment plants operation services which are settled on a monthly basis. In addition, the Group has gross amounts due from customers for contract work and other receivables in respect of the BOT arrangements.

As at 31 December 2008, 2009 and 2010 and 31 March 2011, trade and other receivables and gross amounts due from customers for contract work of the Group amounted to HKD 257,526,000, HKD 263,594,000, HKD 389,854,000 and HKD 223,866,000 and HKD 4,851,000, HKD 16,211,000, HKD 173,822,000 and HKD 174,920,000 respectively, of which HKD 710,000, HKD 1,143,000, HKD 83,963,000 and HKD 2,230,000 were due from the largest customer and HKD 2,978,000, HKD 18,782,000, HKD 190,127,000 and HKD 92,230,000 were due from the five largest customers in aggregate of the Group. The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the balance sheets. Since the parties to BOT arrangement are local government authorities in the PRC, the Group considers the credit risk is low.

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer rather than the industry or country in which the customers operate and therefore significant concentrations of credit risk primarily arise when the Group has significant exposure to individual customer.

In respect of other receivables, the Group assesses the financial ability of the debtors before granting the facilities to them. The Group chases the debtors to settle outstanding balances and monitors the settlement progress on an ongoing basis.

The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the combined balance sheets.

Further quantities disclosures in respect of the Group's exposure to credit risk arising from "Gross amounts due from customers for contract work" as well as "Trade and other receivables" are set out in Notes 16 and 18.

(b) Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

Typically, the Group ensures that it maintains sufficient reserves of cash on demand and adequate committed lines of funding from major financial institutions to meet its liquidity requirement in the short and longer term. This excludes the potential impact of extreme circumstances that cannot reasonably be predicted.

The following tables show the remaining contractual maturities at the balance sheet dates of the Group's non-derivative financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the balance sheet date) and the earliest date the Group can be required to pay:

31 December 2008**Contractual undiscounted cash outflow**

	Within 1 year or on demand	More than 1 year but less than 5 years	More than 5 years	Total	Carrying amount
	HKD'000	HKD'000	HKD'000	HKD'000	HKD'000
Loans and borrowings	37,646	178,929	81,769	298,344	283,476
Trade and other payables . . .	<u>87,206</u>	<u>—</u>	<u>—</u>	<u>87,206</u>	<u>87,206</u>
Total	<u>124,852</u>	<u>178,929</u>	<u>81,769</u>	<u>385,550</u>	<u>370,682</u>

31 December 2009**Contractual undiscounted cash outflow**

	Within 1 year or on demand	More than 1 year but less than 5 years	More than 5 years	Total	Carrying amount
	HKD'000	HKD'000	HKD'000	HKD'000	HKD'000
Loans and borrowings	13,628	249,990	—	263,618	250,648
Trade and other payables . . .	<u>69,201</u>	<u>—</u>	<u>—</u>	<u>69,201</u>	<u>69,201</u>
Total	<u>82,829</u>	<u>249,990</u>	<u>—</u>	<u>332,819</u>	<u>319,849</u>

31 December 2010

Contractual undiscounted cash outflow

	Within 1 year or on demand	More than 1 year but less than 5 years	More than 5 years	Total	Carrying amount
	HKD'000	HKD'000	HKD'000	HKD'000	HKD'000
Loans and borrowings	17,644	260,760	58,150	336,554	319,302
Trade and other payables . . .	118,935	—	—	118,935	118,935
Total	<u>136,579</u>	<u>260,760</u>	<u>58,150</u>	<u>455,489</u>	<u>438,237</u>

31 March 2011

Contractual undiscounted cash outflow

	Within 1 year or on demand	More than 1 year but less than 5 years	More than 5 years	Total	Carrying amount
	HKD'000	HKD'000	HKD'000	HKD'000	HKD'000
Loans and borrowings	19,613	262,475	57,203	339,291	321,494
Trade and other payables . . .	105,058	—	—	105,058	105,058
Total	<u>124,671</u>	<u>262,475</u>	<u>57,203</u>	<u>444,349</u>	<u>426,552</u>

(c) Interest rate risk

The Group's interest rate risk arises primarily from long-term borrowings. Long-term borrowings at various rates expose the Group to fair value interest rate risk. The Group consistently monitors the current and potential fluctuation of interest rates to monitor the interest risk on a reasonable level. The Group has not used any interest rate swaps to hedge its exposure to interest rate risk.

(i) Interest rate profile

At the end of reporting period, the interest rate profile of the Group's interest-bearing borrowings is set out as below:

	At 31 December				At 31 March			
	2008		2009		2010		2011	
	Effective interest rate	Carrying amount HKD'000	Effective interest rate	Carrying amount HKD'000	Effective interest rate	Carrying amount HKD'000	Effective interest rate	Carrying amount HKD'000
Variable rate instruments:								
Bank loans	<u>6.048%</u>	<u>283,476</u>	<u>5.472%</u>	<u>250,648</u>	<u>5.662%/5.94%</u>	<u>319,302</u>	<u>5.662%/6.60%</u>	<u>321,494</u>

(ii) Sensitivity analysis

For the years ended 31 December 2008, 2009 and 2010 and the three months ended 31 March 2010 and 2011, if interest rates on deposits with banks had been 100 basis points higher/lower with all other variables held constant, profit before tax for the year would have been HKD 2,834,760, HKD 2,506,480, HKD 3,193,020, HKD 2,476,120 (unaudited) and HKD 3,214,940 higher/lower, respectively, mainly as a result of higher/lower finance income on deposits with banks.

(d) Foreign currency risk

Individual companies within the Group have limited foreign currency risk as most of the transactions are denominated in the same currency as the functional currency of the operations in which they relate. However, as the principal subsidiaries mainly carried out transactions in RMB, therefore any appreciation or depreciation of HKD against RMB will affect the Group's financial position and be reflected in the exchange reserve.

(e) Fair value

The carrying amounts of all financial assets and liabilities carried at amortised cost approximate their respective fair values as at 31 December 2008, 2009 and 2010 and 31 March 2010 and 2011 due to the short maturities of these instruments. The fair value of the long-term borrowings is estimated as the present value of future cash flows, discounted at current market interest rates for similar financial instruments.

(f) Estimation of fair value

The following summarises the major methods and assumptions used in estimating the fair values of financial instruments.

(i) Gross amounts due from customers for contract work

Gross amounts due from customers for contract work are initially recognised at fair value and thereafter stated at amortised cost using the effective interest method.

(ii) Trade and other receivables

Trade receivables are initially recognised at fair value and thereafter stated at amortised cost less allowance for impairment of doubtful debts. Fair value is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the balance sheet date.

Where discounted cash flow techniques are used, estimated future cash flows are based on management's best estimates and the discount rate is a market related rate for a similar instrument at the balance sheet date.

(iii) Loans and borrowings

The fair value is estimated as the present value of future cash flows, discounted at current market interest rates for similar financial instruments.

(iv) Property, plant and equipment

The fair value of property, plant and equipment recognised as a result of a business combination is based on market values. The market value of property is the estimated amount for which a property could be exchanged on the date of valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably and willingly. The fair value of items of plant, equipment, fixtures and fittings is based on the market approach and cost approaches using quoted market prices for similar items when available and replacement cost when appropriate.

26 Capital commitments

Capital commitments outstanding at respective balance sheet dates not provided for in the Financial Information were as follows:

	At 31 December			At 31 March
	2008	2009	2010	2011
	HKD'000	HKD'000	HKD'000	HKD'000
Property, plant and equipment				
- Contracted for	—	—	5,663	7,372
- Authorised but not contracted for	—	—	141,989	142,548

27 Material related party transactions

During the Relevant Period, the directors are of the view that related parties of the Group include the following individuals/companies:

Name of related party	Relationship with the Group
Mr. Tsui Cham To	Controlling shareholder
Mr. Xu Shubiao	Director of Xi Zhou Enterprises and the Company
Mr. Gong Shuyi	Managing Director of Huaihua Tianyuan
Mr. Liang Gankui	Managing Director of Longmen Xilin
Mr. Xu Zitao	Close family member of Controlling shareholder
Guangzhou To Kee	Effectively owned by the Controlling Shareholder
Guangzhou Tian Tian Cleaning and Washing Company Limited (“Tian Tian”) (廣州天天快潔洗滌有限公司) (i)	Effectively owned by the Controlling Shareholder
Xintao Credit	Effectively owned by the Controlling Shareholder
Longmen Yagang Copper Company Limited (“Longmen Copper”) (龍門亞鋼銅業有限公司) (i)	Effectively owned by the Controlling Shareholder
Xintang Regency Hotel Co., Ltd. (“The Regency Hotel”) (新塘凱旋門大酒店有限公司) (i) & (ii)	Effectively owned by the Controlling Shareholder
Shenzhen Jialinyuan Water Technology Company Limited (“Shenzhen Jialinyuan”) (深圳佳霖源水務科技有限公司) (i)	Effectively owned by the shareholder of non-controlling interests of Tianyuan
Zhengcheng Foreign Economic and Trade Company Limited (“Zengcheng Foreign”) (增城市對外經貿有限公司) (i)	Effectively owned by the Controlling Shareholder
Guangzhou Peili Union Education Investment Company Limited (“Guangzhou Peili”) 廣州培立聯合教育投資有限公司 (i)	Non-controlling interests owned by the Controlling Shareholder
ANB Limited	Effectively owned by the Controlling Shareholder

- (i) The English translation of the company names is for reference only. The official names of these companies are in Chinese.
- (ii) The Regency Hotel was disposed by Guangzhou To Kee to an independent third party in December 2009. The Regency Hotel was no longer a related party thereafter. The following disclosure of the related party transactions related to The Regency Hotel is for the period up to December 2009.

(a) Key management personnel compensation

Key management personnel compensation comprised of:

	Year ended 31 December			Three months ended 31 March	
	2008	2009	2010	2010	2011
	HKD'000	HKD'000	HKD'000	HKD'000	HKD'000
Salaries and other benefits . .	1,104	939	759	240	235
Retirement scheme of defined contribution	26	28	22	4	6
	<u>1,130</u>	<u>967</u>	<u>781</u>	<u>244</u>	<u>241</u>

(b) Recurring transactions

Particulars of significant transactions between the Group and the above related parties during the Relevant Period are as follows:

	Year ended 31 December			Three months ended 31 March	
	2008	2009	2010	2010	2011
	HKD'000	HKD'000	HKD'000	HKD'000	HKD'000
Provision of waste processing service					
- Tian Tian	<u>—</u>	<u>—</u>	<u>3,412</u>	<u>—</u>	<u>1,319</u>

The directors of the Company are of the opinion that the above related party transactions were conducted on normal commercial terms and were priced with reference to prevailing market prices and in the ordinary course of business. The directors have confirmed that the above transactions will continue in the future after the listing of the Company's shares on the Stock Exchange.

(c) *Non-recurring transactions*

	Year ended 31 December			Three months ended 31 March	
	2008	2009	2010	2010	2011
	HKD'000	HKD'000	HKD'000	HKD'000 (Unaudited)	HKD'000
Lease prepayments of land use rights					
- Guangzhou To Kee	<u>7,735</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
Purchase of fixed assets					
- Guangzhou To Kee	<u>—</u>	<u>538</u>	<u>—</u>	<u>—</u>	<u>—</u>
Finance income					
- Guangzhou To Kee	<u>—</u>	<u>8,851</u>	<u>8,958</u>	<u>2,218</u>	<u>1,860</u>
Pledged assets for loans of Guangzhou Kaizhou and Guangzhou Xintao by					
- the Controlling Shareholder .	4,547	—	—	—	—
- The Regency Hotel	48,304	—	—	—	—
- Guangzhou To Kee	44,789	—	—	—	—
- Guangzhou Peili	<u>73,862</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
	<u>171,502</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
Acquisition of non-controlling interests from					
- Xu Zitao	—	—	4,571	—	—
- Guangzhou To Kee	—	—	16,347	—	—
- Shenzhen Jialinyuan	—	—	1,707	—	—
	<u>—</u>	<u>—</u>	<u>22,625</u>	<u>—</u>	<u>—</u>
Disposal of investment in equity securities to					
- Guangzhou To Kee	<u>—</u>	<u>—</u>	<u>5,839</u>	<u>—</u>	<u>—</u>
Current accounts to the Group from					
- Guangzhou To Kee	7,926	53,872	213,514	161,519	179,668
- Shenzhen Jialinyuan	—	—	19,466	—	—
- Xintao Credit	562	3,075	—	—	—
- Longmen Copper	995	—	2,986	1,593	1,580
- the Controlling Shareholder .	1,300	2,860	5,572	100	920
- Liang Gankui	—	1,702	—	—	—
- Gong Shuyi	—	—	5,742	—	—
- ANB Limited	—	—	—	—	76
	<u>10,783</u>	<u>61,509</u>	<u>247,280</u>	<u>163,212</u>	<u>182,244</u>

	Year ended 31 December			Three months ended 31 March	
	2008	2009	2010	2010	2011
	HKD'000	HKD'000	HKD'000	HKD'000	HKD'000
				(Unaudited)	
Current accounts from the Group to					
- Guangzhou To Kee at					
fixed charge rate	—	147,524	149,292	147,901	—
free of charge	339,308	62,368	176,965	10,239	7,630
- Shenzhen Jialinyuan	—	—	21,871	—	—
- Xintao Credit	1,574	1,248	—	—	—
- Longmen Copper	5,627	28,273	—	—	—
- The Regency Hotel	—	4,539	—	—	—
- the Controlling Shareholder .	—	1,900	172	—	794
- ANB Limited	100	—	—	—	—
	<u>346,609</u>	<u>245,852</u>	<u>348,300</u>	<u>158,140</u>	<u>8,424</u>
Expenses paid by the Group on behalf of					
- Guangzhou To Kee	—	—	1,107	—	—
- Longmen Copper	13	116	1,608	—	—
	<u>13</u>	<u>116</u>	<u>2,715</u>	<u>—</u>	<u>—</u>
Expenses paid by related parties on behalf of the Group					
- Guangzhou To Kee	67	5,258	1,225	428	529
- Longmen Copper	28,012	—	—	—	—
- the Controlling Shareholder .	2,007	—	406	—	—
- ANB Limited	24	—	—	—	—
	<u>30,110</u>	<u>5,258</u>	<u>1,631</u>	<u>428</u>	<u>529</u>

The directors of the Company have confirmed that the above transactions will not be continued upon listing of the Company's shares on the Stock Exchange.

The fixed charge rate for current accounts from the Group to Guangzhou To Kee was 6% for the years ended 31 December 2009 and 2010 and the period ended 31 March 2010 and 5.662% for the period ended 31 March 2011.

*(d) Balances with related parties**(i) Amounts due from related parties*

	At 31 December			At 31 March
	2008	2009	2010	2011
	HKD'000	HKD'000	HKD'000	HKD'000
<i>Trade receivables from</i>				
- Tian Tian	—	—	1,856	553
<i>Other receivables from</i>				
- Guangzhou To Kee at				
fixed charge rate	—	147,641	152,776	24,160
free of charge	242,140	92,742	194,563	148,901
- Longmen Copper	2,757	2,765	1,567	—
- Xintao Credit	1,826	—	—	—
- Liang Gankui	1,700	—	—	—
- ANB Limited	76	76	76	—
- Zengcheng Foreign	2	—	—	—
	<u>248,501</u>	<u>243,224</u>	<u>350,838</u>	<u>173,614</u>

Except for the amount due from Guangzhou To Kee charged at fixed rate, the outstanding balances with the other related parties are unsecured, interest free and have no fixed repayment terms.

(ii) Amounts due to related parties

	At 31 December			At 31 March
	2008	2009	2010	2011
	HKD'000	HKD'000	HKD'000	HKD'000
<i>Other payables to</i>				
- Guangzhou To Kee	471	9,445	6,748	—
- Longmen Copper	28,251	—	—	—
- the Controlling Shareholder	51,373	52,328	58,107	58,234
- Shenzhen Jialinyuan	—	—	12,282	12,407
	<u>80,095</u>	<u>61,773</u>	<u>77,137</u>	<u>70,641</u>

The outstanding balances with these related parties are unsecured, interest free and have no fixed repayment terms.

The directors of the Company have confirmed that the Group has settled the amounts due to/from the related parties.

28 Immediate and ultimate controlling parties

The directors consider the immediate controlling party as at 31 March 2011 to be Keen Vast Holding Limited (建大控股有限公司), while the ultimate controlling party of the Company as at 31 March 2011 to be Mr. Tsui.

29 Significant accounting estimates and judgements

(a) *Critical accounting judgements in applying the Group's accounting policies. In the process of applying the Group's accounting policies, management has made the following accounting judgements:*

(i) Service concession arrangements

The Group entered into BOT arrangements in waste-water treatment. The Group concluded that the BOT arrangements are service concession arrangements under HK(IFRIC) 12, because the local government controls and regulates the services that the Group must provide with the infrastructure at a pre-determined service charge. In addition, upon expiry of concession right agreement, the infrastructure has to be transferred to the local government at nil consideration.

(ii) Impairment losses for bad and doubtful debts

The Group estimates impairment losses for bad and doubtful debts resulting from the inability of the customers to make the required payments. The Group bases the estimates on the ageing of the receivables, customer credit-worthiness, and historical write-off experience. If the financial conditions of customers were to deteriorate, actual write-offs would be higher than estimated.

(iii) Other impairment losses

If circumstances indicate that the carrying value of investments in fixed assets, intangible asset and other financial assets may not be recoverable, these assets may be considered impaired, and an impairment loss may be recognised in accordance with HKAS 36, Impairment of Assets. The carrying amounts of these assets are reviewed periodically in order to assess whether the recoverable amounts have declined below the carrying amounts.

These assets are tested for impairment whenever events or changes in circumstances indicate that their recorded carrying amounts may not be recoverable. When such a decline has occurred, the carrying amount is reduced to recoverable amount. The recoverable amount is the greater of the net selling prices and the value in use. It is difficult to estimate precisely selling prices because quoted market prices for the Group's assets are not readily available. In determining the value in use, expected cash flows generated by the asset are discounted to their present value, which requires significant judgement relating to revenue and amount of operating costs. The Group uses all readily available information in determining an amount that is a reasonable approximation of recoverable amount, including estimates based on reasonable and supportable assumptions and projections of revenue and amount of operating costs.

30 Possible impact of amendments, new standards and interpretations issued but not yet effective for the period ended 31 March 2011

Up to the date of issue of these Financial Information, the HKICPA has issued a number of amendments, new standards and interpretations which are not yet effective for the period ended on 31 March 2011 and which have not been adopted in the Financial Information of these development, the following related to matter that may be relevant to the Group's operations and the Financial Information:

	<u>Effective for accounting periods beginning on or after</u>
HKFRS 9, Financial instruments	1 January 2013
Amendments to HKAS12, Income taxes	1 January 2012

The Group is in the process of making an assessment of what the impact of these amendments is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to result in material impact to the Group's results of operations and financial position.

D SUBSEQUENT EVENTS

- (1) Xi Zhou Enterprises subsequently declared and paid dividends of HKD 87,000,000, HKD 6,000,000 and HKD 19,489,000 on 1 April 2011, 19 April 2011 and 30 May 2011, respectively, to its then equity holders.
- (2) The companies comprising the Group underwent and completed a reorganisation in preparation for the listing of the Company's shares on the Main Board of the Stock Exchange on 31 May 2011. Further details of the Reorganisation are set out in the "History and Reorganization" in the Prospectus. As a result of the Reorganisation, the Company became the holding company of the Group.

E FINANCIAL INFORMATION OF THE COMPANY

The Company was incorporated on 30 November 2010 with an authorised capital of HKD 380,000 divided into 3,800,000 shares of HKD 0.1 each and 1,000,000 nil-paid shares were issued thereafter. The Company has not carried on any business since the date on incorporation. Accordingly, there was neither balance sheet item nor profit or loss item in the financial statements of the Company at 31 March 2011. After the completion of the Reorganisation on 31 May 2011, the Company became the holding company of the Group.

F SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Company and its subsidiaries in respect of any period subsequent to 31 March 2011.

Yours faithfully
KPMG
Certified Public Accountants
Hong Kong

APPENDIX II UNAUDITED PRO FORMA FINANCIAL INFORMATION

The information set forth in this appendix does not form part of the Accountants' Report prepared by KPMG, Certified Public Accountants, Hong Kong, the reporting accountants of our Company, as set forth in Appendix I to this prospectus, and is included herein for illustrative purpose only.

The unaudited pro forma financial information should be read in conjunction with "Financial Information" in this prospectus and the Accountants' Report set forth in Appendix I to this prospectus.

A. UNAUDITED PRO FORMA ADJUSTED NET TANGIBLE ASSETS

For illustrative purpose only, the unaudited pro forma statement of adjusted net tangible assets prepared in accordance with Rule 4.29 of the Listing Rules is set forth below to provide the prospective investors with further information on how the proposed listing might have affected the financial position of our Group by the completion of the Global Offering as if the Global Offering had been completed on March 31, 2011.

The unaudited pro forma statement of adjusted net tangible assets has been prepared for illustrative purpose only and because of its nature, it may not give a true picture of our Group's financial condition following the completion of the Global Offering.

The following unaudited pro forma statement of adjusted net tangible assets of our Group is based on the combined net assets of our Group as of March 31 2011, as shown in the Accountants' Report, the text of which is set out in Appendix I to this prospectus and adjusted as set forth below.

	Combined net tangible assets of our Group as at March 31 2011 ¹	Estimated net proceeds from the Global Offering ²	Unaudited pro forma adjusted net tangible assets	Unaudited pro forma adjusted net tangible assets per Share ³
	HKD'000	HKD'000	HKD'000	HKD
Based on the offer price of HK\$2.38 per Share	188,456	582,717	771,173	0.66
Based on the offer price of HK\$1.68 per Share	188,456	403,994	592,450	0.51

Notes:

- 1 The combined net tangible assets of our Group as of March 31 2011 is compiled based on the combined financial information included in the Accountants' Report as set out in Appendix I to this prospectus, which is based on the combined net assets of HKD198 million less intangible assets of HKD9 million.*
- 2 The estimated net proceeds from the Global Offering are based on the Offer Price of HKD1.68 or HKD2.38, being the low or high end of the stated offer price range, per Offer Share after deduction of the underwriting fees and other related expenses payable by our Group and takes no account of any Shares which may be issued upon the exercise of the Over-allotment Option.*
- 3 The unaudited pro forma adjusted net tangible assets per Share is arrived at after the adjustments referred to above and on the basis that 1,164,000,000 Shares are in issue following the Global Offering but takes no account of any Shares which may be issued upon the exercise of the options under the Over-allotment Option.*

B. UNAUDITED PRO FORMA FORECAST EARNINGS PER SHARE

The following unaudited pro forma forecast earnings per Share for the year ending December 31, 2011 has been prepared in accordance with Rule 4.29 of the Listing Rules on the basis set out in the notes below for the purpose of illustrating the effect of the Global Offering, as if it had taken place on January 1, 2011. The unaudited pro forma forecast earnings per Share has been prepared for illustrative purposes only and, because of its hypothetical nature, it may not give a true picture of the financial results of our Group following the Global Offering.

Forecast for the twelve months ending
December 31, 2011

Forecast consolidated profit of our Group¹

Not less than HKD 200 million

Unaudited pro forma forecast earnings per share²

Not less than HKD 0.17

Notes:

- 1 The forecast consolidated profit of our Group for the year ending December 31, 2011 is extracted from the profit forecast as set out in “Financial Information — Profit Forecast” in this prospectus. The bases and assumptions on which the above profit forecast for the year ending December 31, 2011 has been prepared are summarized in “Profit Forecast” in Appendix III to this prospectus.*
- 2 The calculation of the unaudited pro forma estimated earnings per Share is based on the estimated consolidated profit of our Group for the year ending December 31, 2011 and assuming that a total number of 1,164,000,000 Shares were in issue during the year ending December 31, 2011.*

The following is the text of a report, prepared for the purpose of incorporating in this prospectus, received from KPMG, Certified Public Accountants, Hong Kong.

C REPORT ON UNAUDITED PRO FORMA FINANCIAL INFORMATION

8th Floor
Prince's Building
10 Chater Road
Central
Hong Kong

The Directors

CT Environmental Group Limited

24 June 2011

Dear Sirs

CT Environmental Group Limited (“the Company”)

We report on the unaudited pro forma financial information (“the Pro Forma Financial Information”) of the Company and its subsidiaries (“the Group”) set out in Parts (A) and (B) of Appendix II to the prospectus dated 24 June 2011 (“the Prospectus”), which has been prepared by the directors of the Company solely for illustrative purposes to provide information about how the share offer might have affected the financial information presented. The basis of preparation of the unaudited Pro Forma Financial Information is set out in Parts (A) and (B) on page II-1 to II-2 of Appendix II to the prospectus.

Responsibilities

It is the responsibility solely of the directors of the Company to prepare 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” issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”).

It is our responsibility to form 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.

Basis of opinion

We conducted our work in accordance with Hong Kong Standard on Investment Circular Reporting Engagements (“HKSIR”) 300 “Accountants’ Reports on Pro Forma Financial Information in Investment Circulars” issued by the HKICPA. Our work consisted primarily of comparing the unadjusted financial information with source documents, considering the evidence supporting the adjustments and discussing the unaudited Pro Forma Financial Information with the directors of the Company. The engagement did not involve independent examination of any of the underlying financial information.

Our work did not constitute an audit or review performed in accordance with Hong Kong Standards on Auditing or Hong Kong Standards on Review Engagements issued by the HKICPA, and accordingly, we do not express any such audit or review assurance on the unaudited Pro Forma Financial Information.

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the unaudited Pro Forma Financial Information has been properly compiled by the directors of the Company on the basis stated, that such basis is consistent with the accounting policies of the Company and that 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.

Our procedures on the unaudited Pro Forma Financial Information have not been carried out in accordance with attestation standards on other standards and practices generally accepted in the United States of America on auditing standards of the Public Company Accounting Oversight Board (United States) and accordingly should not be relied upon as if they had been carried out in accordance with those standards and practices.

The unaudited Pro Forma Financial Information is for illustrative purposes only, based on the judgements and assumptions of the directors of the Company, and because of its hypothetical nature, it does not provide any assurance or indication that any event will take place in the future and may not be indicative of:

- the financial position of the Group as at 31 March 2011 or any future date; or
- the earnings per share of the Group for the year ending 31 December 2011 or any future periods.

We make no comments regarding the reasonableness of the amount of net proceeds from the issuance of the Company's shares, the application of those net proceeds, or whether such use will actually take place as described under "Use of Proceeds" set out in the section headed "Future plans and proposed use of proceeds" of the Prospectus.

Opinion

In our opinion:

- a) the unaudited Pro Forma Financial Information has been properly compiled by the directors of the Company on the basis stated;
- b) such basis is consistent with the accounting policies of the Company, 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.

Yours faithfully

KPMG

Certified Public Accountants

Hong Kong

The forecast of the consolidated profit attributable to equity shareholders of our Company for the year ending December 31, 2011 is set out in the section headed “Financial Information — Profit Forecast for the Year Ending December 31, 2011.” in this prospectus.

(1) BASES AND ASSUMPTIONS

Our Directors have prepared the forecast of the consolidated profit attributable to equity shareholders of the Company for the year ending December 31, 2011, based on the audited combined results of the Group for the three months ended March 31, 2011 and a forecast of the consolidated results of the Group for the remaining nine months ending December 31, 2011.

The profit forecast has been prepared on the basis of accounting policies consistent in all material respects with HKFRSs, as summarized in the Accountants’ Report set out in Appendix I, and on the following assumptions:

- (a) There will be no material change in the existing government policies or political, legal, fiscal, market or economic conditions in the PRC, Hong Kong and other countries in which the Group operates.
- (b) There will be no material change in interest rates, exchange rates and inflation rates from those presently prevailing on the date of this Memorandum.
- (c) There will be no material change in the rates of taxation applicable to the activities of the Group in the operating regions. The Group will not be materially and adversely affected by changes in the tax base or the rates of taxation.
- (d) There will be no significant change in the existing accounting policies, critical accounting estimates and judgement underlying the preparation of the Profit and Working Capital Forecasts from those adopted in the preparation of the Group’s results to be disclosed in the prospectus.
- (e) The Group’s operations and business will not be materially affected or interrupted by any force majeure events or unforeseeable factors or any unforeseeable reasons that are beyond the control of the Directors, including but not limited to the occurrence of natural disasters, supply failure, labor dispute, significant lawsuit and arbitration.
- (f) The Group’s operations will not be significantly affected by production capacity of major equipment which is beyond the control of the Directors.
- (g) The Group is not materially and adversely affected by any of the risk factors set out in the section headed “Risk Factors” of the Prospectus.
- (h) The Group can substantially maintain the business relationship with its major customers and suppliers during the Forecast Period.
- (i) The Group’s production and operation will not be significantly affected by interruptions as a result of the failure to meet relevant production and regulations, or obtain industry safety and qualification certificates.

(2) LETTERS

The texts of letters received by our Directors from our auditors and independent reporting accountants and from the Sole Sponsor in connection with the profit forecast, in each case prepared for the purpose of incorporation in this prospectus, are set out below.

(I) Letter from KPMG

The following is the text of a letter received from the Company's reporting accountants, KPMG, Certified Public Accountants, Hong Kong, in connection with the profit forecast and for the purpose of incorporation in this prospectus.



8th Floor,
Prince's Building
10 Chater Road
Central
Hong Kong

The Directors

CT Environmental Group Limited

Citigroup Global Markets Asia Limited

24 June 2011

Dear Sirs

We have reviewed, in accordance with the Auditing Guideline 3.341 "Accountants' report on profit forecasts" issued by the Hong Kong Institute of Certified Public Accountants, the accounting policies adopted and calculations made in arriving at the forecast of the consolidated profit attributable to equity holders of CT Environmental Group Limited ("the Company") for the period ending 31 December 2011 ("the Profit Forecast"), for which the directors of the Company are solely responsible, as set forth in the section headed Financial Information in the prospectus of the Company dated 24 June 2011 ("the Prospectus").

The Profit Forecast has been prepared by the directors of the Company based on the audited combined results of the Company and its subsidiaries (collectively referred to as "the Group") for the three months ended 31 March 2011 and a forecast of the combined results of the Group for the remaining nine months ending 31 December 2011.

In our opinion, so far as the accounting policies and calculations are concerned, the Profit Forecast has been properly compiled in accordance with the assumptions made by the directors as set out in Appendix III of the Prospectus and is presented on a basis consistent in all material respects with the accounting policies normally adopted by the Group as set out in our accountants' report dated 24 June 2011, the text of which is set out in Appendix I to the Prospectus.

Yours faithfully

KPMG

Certified Public Accountants

Hong Kong

(II) Letter from the Sole Sponsor

The following is text of a letter prepared by the Sole Sponsor, for the purpose of incorporation in this prospectus, in connection with the forecast of the consolidated profit attributable to the equity shareholders of the Company for the year ending December 31, 2011.

Citigroup Global Markets Asia Limited
50th Floor, Citibank Tower
Citibank Plaza
3 Garden Road
Central, Hong Kong

June 24, 2011

The Board of Directors
CT Environmental Group Limited

Dear Sirs,

We refer to the forecast consolidated profit of CT Environmental Group Limited (the “**Company**”) and its subsidiaries (the “**Group**”) for the year ending December 31, 2011 attributable to the owners of the Company (the “**Forecast**”) as set out in the section headed “Financial Information — Profit Forecast for the Year Ending December 31, 2011” in the prospectus of the Company dated June 24, 2011 (the “**Prospectus**”).

The Forecast, for which the Directors are solely responsible, has been prepared by them based on the audited accounts of the Group for the three months ended March 31, 2011 and a forecast of the results of the Group for the remaining nine months ending December 31, 2011.

We have discussed with you the bases and assumptions made by the Directors of the Company upon which the Forecast has been made. We have also considered, and relied upon, the letter dated June 24, 2011 addressed to yourselves and ourselves from KPMG regarding the accounting policies and calculations upon which the Forecast has been made.

On the basis of the information comprising the Forecast and on the basis of the accounting policies and calculations adopted by you and reviewed by KPMG, we are of the opinion that the Forecast, for which you as Directors of the Company are solely responsible, has been made after due and careful enquiry.

Yours faithfully,
For and on behalf of
Citigroup Global Markets Asia Limited
Rodney Tsang
Managing Director

The following is the text of a letter, summary of valuations and valuation certificates prepared for the purpose of incorporation in this prospectus received from DTZ Debenham Tie Leung Limited, an independent property valuer, in connection with its opinion of market values of the properties held in the PRC as at April 30, 2011.



16th Floor
Jardine House
1 Connaught Place
Central
Hong Kong

24 June 2011

The Directors
CT Environmental Group Limited
Room 1202B, 12/F
Empire Centre
68 Mody Road
Tsim Sha Tsui
Kowloon, Hong Kong

Dear Sirs,

Instructions, Purpose & Date of Valuation

In accordance with your instruction for us to carry out the valuation of the market value of the properties (the “properties”) held by CT Environmental Group Limited (the “Company”) and its subsidiaries (together the “Group”) in the People’s Republic of China (the “PRC”), we confirm that we have carried out inspection, made relevant enquiries and obtained such further information as we consider necessary for the purpose of providing you with our opinion of the market values of the properties in existing state as at April 30, 2011 (the “date of valuation”).

Definition of Market Value

Our valuation of each of the properties represents its market value which in accordance with The HKIS Valuation Standards on Properties (First Edition 2005) published by the Hong Kong Institute of Surveyors is defined as “the estimated amount for which a Property should exchange on the date of valuation between a willing buyer and a willing seller in an arm’s-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion.”

Valuation Basis and Assumption

Our valuations of the properties exclude an estimated price inflated or deflated by special terms or circumstances such as atypical financing, sale and leaseback arrangement, special considerations or concessions granted by anyone associated with the sale, or any element of special value.

In the course of our valuation of the properties situated in the PRC, with reference to the PRC legal opinion of the legal adviser, GFE Law Office, we have prepared our valuation on the basis that transferable land use rights in respect of the properties for its specific term at nominal annual land use fee have been granted and that any premium payable has already been fully paid. We have relied on the information and advice given by the Group and the PRC legal opinion of the legal adviser,

regarding the title to the properties and the interests in the properties. In valuing the properties, with reference to the PRC legal opinion, we have prepared our valuation on the basis that the owners have enforceable title to the properties and have free and uninterrupted rights to use, occupy or assign the properties for the whole of the unexpired term as granted.

No allowance has been made in our valuations for any charges, pledges or amounts owing on the properties nor for any expenses or taxation which may be incurred in effecting a sale. Unless otherwise stated, it is assumed that the properties are free from encumbrances, restrictions and outgoings of any onerous nature which could affect their values.

Method of Valuation

In valuing the properties in Group I which are held by the Group for owner-occupation in the PRC, we have adopted the Depreciated Replacement Costs (“DRC”) Approach. DRC is based on an estimate of the market value for the existing use of the land, plus the current gross replacement costs of the improvements, less allowances for physical deterioration and all relevant forms of obsolescence and optimization. The term gross replacement cost is defined as the estimated cost of erecting the building or a modern substitute building having the same area as the existing building at prices current at the relevant date. This figure includes fees and finance charges payable during the construction period and other associated expenses directly related to the construction of the building. The DRC Approach generally furnishes a reliable indication of value for properties with specific nature and design of buildings, in the absence of identifiable market sales comparables. The DRC is subject to adequate potential profitability of the business.

In valuing the properties in Group II which are the properties held by the Group under licence in the PRC, as for which the Group has entered into agreements with relevant owners of the properties or government authority, but for which the Group will not obtain the State-owned Land Use Rights Certificates for the future operation term. We have ascribed no commercial value to the properties.

In valuing the properties, we have complied with the requirements set out in Chapter 5 and Practice Note 12 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and The HKIS Valuation Standards on Properties (First Edition 2005) published by the Hong Kong Institute of Surveyors.

Source of Information

We have relied to a very considerable extent on the information given by the Group and the opinion of the PRC legal adviser as to PRC laws. We have accepted advice given to us on such matters as planning approvals or statutory notices, easements, tenure, identification of properties, particulars of occupancy, development scheme, site and floor areas and all other relevant matters.

Dimension, measurements and areas included in this valuation report are based on the information provided to us and are therefore only approximation. We have had no reason to doubt the truth and accuracy of the information provided to us by the Group which is material to the valuation. We were also advised that no material facts have been omitted from the information supplied.

We would point out that the copies of documents provided to us are mainly compiled in Chinese characters and the transliteration into English represents our understanding of the contents. We would therefore advise the Company to make reference to the original Chinese edition of the documents and consult your legal adviser regarding the legality and interpretation of these documents.

Title Investigation

We have been provided by the Group with copies or extracts of documents. However, we have not searched the original documents to verify ownership or to ascertain any amendments. All documents have been used for reference only and all dimensions, measurements and areas are approximate.

Site Inspection

We have inspected the exterior, and wherever possible, the interior of the properties. However, we have not carried out investigations on site to determine the suitability of the soil conditions and the services etc. for any future development. Our valuations are prepared on the assumption that these aspects are satisfactory and that no extraordinary costs or delays will be incurred during the construction period. Moreover, no structural survey has been made, but in the course of our inspection, we did not note any serious defects. We are not, however, able to report that the properties are free of rot, infestation or any other structural defects. No tests were carried out to any of the services.

We have not been able to carry out detailed on-site measurements to verify the site and floor areas of the properties and we have assumed that the areas shown on the documents handed to us are correct.

Currency

Unless otherwise stated, all sums stated in our valuations are in Renminbi, the official currency of the PRC.

We enclose herewith a summary of valuations and valuation certificates.

Yours faithfully,
For and on behalf of
DTZ Debenham Tie Leung Limited
Philip CY Tsang
Registered Professional Surveyor (GP)
Registered China Real Estate Appraiser
MSc, MRICS, MHKIS
Director

Note: Mr. Philip CY Tsang is a Registered Professional Surveyor who has over 18 years' experience in the valuation of properties in the PRC.

Contributing PRC valuers of DTZ Guangzhou Office with professional qualifications include, but are not limited to, China Real Estate Appraiser and China Land Valuer.

SUMMARY OF VALUATIONS

Property	Market Value in existing state as at April 30, 2011 RMB	The Group's attributable interest %	Market Value in existing state as at April 30, 2011 attributable to the Group RMB
Group I — Properties held by the Group for owner-occupation in the PRC			
1. Guangzhou Xinzhou Environmental Protection Industrial Park Treatment Facility (Phase I and Phase II), situated at Guangzhou Xinzhou Environmental Protection Industrial Park, Nanshe Bay, Xizhou Village, Xintang Town, Zengcheng City, Guangdong Province, the PRC 中國廣東省增城市新塘鎮西洲村南蛇灣廣州新洲環保工業園廣州新洲環保工業園處理設施（一期及二期）	64,627,000	100	64,627,000
2. Guangzhou Kaizhou Water Supply Facility, situated at Guangzhou Xinzhou Environmental Protection Industrial Park, Nanshe Bay, Xizhou Village, Xintang Town, Zengcheng City, Guangdong Province, the PRC 中國廣東省廣州增城市新塘鎮西洲村南蛇灣廣州新洲環保工業園廣州凱洲自來水設施	13,853,000	100	13,853,000
Sub-total of Group I:	<u>78,480,000</u>		<u>78,480,000</u>
Grand total:	<u>78,480,000</u>		<u>78,480,000</u>

Property	Market Value in existing state as at April 30, 2011 <i>RMB</i>	The Group's attributable interest <i>%</i>	Market Value in existing state as at April 30, 2011 attributable to the Group <i>RMB</i>
Group II — Properties held by the Group under licence in the PRC			
3. Yonghe Haitao Wastewater Treatment Facility (Phase I and Phase II), situated at Tangmei Village, Xintang Town, Zengcheng City, Guangdong Province, the PRC 中國廣東省廣州增城市新塘鎮塘美村永和海滔污水處理設施（一期及二期）	No commercial value	99	No commercial value
4. Longmen Xilin Wastewater Treatment Facility (Phase I and Phase II), situated at Paizai, Daiwu Village, south of Longmen County, Huizhou City, Guangdong Province, the PRC 中國廣東省惠州市龍門縣城南部戴屋村派仔龍門西林污水處理設施（一期及二期）	No commercial value	100	No commercial value
5. Huaihua Tianyuan Treatment Facility (Phase I and Phase II), situated at south of No. 5 Highway, Zhongfang County, Huaihua Industrial Park, Huaihua City, Hunan Province, the PRC 中國湖南省懷化市懷化工業園區中方縣城5號路南側懷化天源污水處理設施（一期及二期）	No commercial value	75	No commercial value

VALUATION CERTIFICATE

Group I - Properties held by the Group for owner-occupation in the PRC

Property	Description and tenure	Particulars of occupancy	Market Value in existing state as at April 30, 2011
1. Guangzhou Xinzhou Environmental Protection Industrial Park Treatment Facility (Phase I and Phase II), situated at Guangzhou Xinzhou Environmental Protection Industrial Park, Nanshe Bay, Xizhou Village, Xintang Town, Zengcheng City, Guangdong Province, the PRC 中國廣東省增城市 新塘鎮西洲村南蛇 灣廣州新洲環保工 業園處理設施 (一 期及二期)	The property comprises a wastewater treatment facility with a total gross floor area of approximately 1,829.47 sq m erected on a parcel of land with a site area of approximately 45,856.70 sq m, which Phase I was completed in 2004 and Phase II was completed in 2007. The land use rights of the property have been granted for a term due to expire on August 20, 2042 for harbor use (please refer to Note 6(iii) below).	The property is currently owner-occupied by the Group as a wastewater treatment facility.	RMB64,627,000 (100% interest attributable to the Group: RMB64,627,000)

Notes:

- (1) According to State-owned Land Use Rights Certificate No. (2008) B0401599 issued by Zengcheng Municipal Land Resources and Housing Administrative Bureau dated April 17, 2008, the land use rights of the property comprising a site area of 45,856.70 sq m, have been granted to 廣州新滔水質淨化有限公司 (Guangzhou Xintao Wastewater Treatment Company Limited) due to expire on August 20, 2042 for harbor use.
- (2) According to Real Estate Title Certificate No. C 6632523 issued by Zengcheng Municipal Land Resources and Housing Administrative Bureau dated September 11, 2008, the building ownership of the property comprising a gross floor area of 895.69 sq m has been vested in 廣州新滔水質淨化有限公司 (Guangzhou Xintao Wastewater Treatment Company Limited).
- (3) According to Real Estate Title Certificate No. C 6632524 issued by Zengcheng Municipal Land Resources and Housing Administrative Bureau dated September 11, 2008, the building ownership of the property comprising a gross floor area of 933.78 sq m has been vested in 廣州新滔水質淨化有限公司 (Guangzhou Xintao Wastewater Treatment Company Limited).
- (4) According to Real Estate Transfer Contract No. TS20080307 dated January 21, 2008 entered into between 廣州滔記實業發展集團有限公司 (Guangzhou To Kee Enterprises Development Group Limited) (Party A) and 廣州新滔水質淨化有限公司 (Guangzhou Xintao Wastewater Treatment Company Limited) (Party B), Party A sold the property with a total site area of 45,856.70 sq m and a total gross floor area of 1,829.47 sq m to Party B at a consideration of RMB5,500,000.
- (5) According to Business Licence No. 007397, 廣州新滔水質淨化有限公司 (Guangzhou Xintao Wastewater Treatment Company Limited) was established as a limited company on September 28, 2003 with a registered capital of HKD28,000,000.

- (6) We have been provided with a legal opinion issued by the Company's PRC legal advisor, which contains, inter alia, the following information:
- (i) The property under State-owned Land Use Rights Certificate No. (2008)B0401599 with a site area of 45,856.70 sq m and 2 copies of Real Estate Title Certificates with a total gross floor area of 1,829.47 sq m is mortgaged to Industrial and Commercial Bank of China Limited, Guangzhou Xintang Branch for a loan with the security term from December 18, 2008 to December 31, 2014. Under such mortgage contract, 廣州新滔水淨化有限公司 (Guangzhou Xintao Wastewater Treatment Company Limited) cannot transfer the land use rights and building ownership rights of the property without Industrial and Commercial Bank of China Limited's agreement in the mortgage period;
 - (ii) The State-owned Land Use Rights Certificate and Real Estate Title Certificate are valid, legal and enforceable under the PRC laws;
 - (iii) Zengcheng Urban and Rural Planning Bureau and Zengcheng Municipal Land Resources and Housing Administrative Bureau had issued Approvals dated January 5, 2011 to 廣州新滔水質淨化有限公司 (Guangzhou Xintao Wastewater Treatment Company Limited) that the planning as waste water treatment plant and the land use can thus be changed to industrial use. The change in land use would not affect the legality and ownership of the buildings erected thereon;
 - (iv) The land use rights of the property, comprising a site area of 45,856.70 sq m and a gross floor area of 1,829.47 sq m have been vested in 廣州新滔水質淨化有限公司 (Guangzhou Xintao Wastewater Treatment Company Limited);
 - (v) 廣州新滔水質淨化有限公司 (Guangzhou Xintao Wastewater Treatment Company Limited) is the sole legal owner of the property;
 - (vi) 廣州新滔水質淨化有限公司 (Guangzhou Xintao Wastewater Treatment Company Limited) has the right to occupy, use, lease, transfer, mortgage and dispose of the land use rights and building ownership of the property; and
 - (vii) 廣州新滔水質淨化有限公司 (Guangzhou Xintao Wastewater Treatment Company Limited) is a limited liability company established in accordance with the laws of the PRC and owned as to 100% by the Company.
- (7) The status of title and grant of major approvals and licence in accordance with the information provided by the Group and the opinion of the PRC legal adviser:
- | | |
|---|-----|
| State-owned Land Use Rights Certificate | Yes |
| Real Estate Title Certificate | Yes |
| Real Estate Transfer Contract | Yes |
| Business Licence | Yes |

VALUATION CERTIFICATE

Property	Description and tenure	Particulars of occupancy	Market Value in existing state as at April 30, 2011
2. Guangzhou Kaizhou Water Supply Facility, situated at Guangzhou Xinzhou Environmental Protection Industrial Park, Nanshe Bay, Xizhou Village, Xintang Town, Zengcheng City, Guangdong Province, the PRC 中國廣東省增城市新塘鎮西洲村南蛇灣廣州新洲環保工業園廣州凱洲自來水設施	The property comprises a water supply facility with a total gross floor area of approximately 924.00 sq m erected on a parcel of land with a site area of approximately 9,604.10 sq m which was completed in 2005. The land use rights of the property have been granted for a term due to expire on August 20, 2042 for harbor use (please refer to Note 5(iii) below).	The property is currently owner-occupied by the Group as a water supply facility.	RMB13,853,000 (100% interest attributable to the Group: RMB13,853,000)

Notes:

- (1) According to State-owned Land Use Rights Certificate No. (2008) B0401598 issued by Zengcheng Municipal Land Resources and Housing Administrative Bureau dated April 16, 2008, the land use rights of the property comprising a site area of 9,604.10 sq m, have been granted to 廣州凱洲自來水有限公司 (Guangzhou Kaizhou Water Supply Company Limited) due to expire on August 20, 2042 for harbor use.
- (2) According to 5 Real Estate Title Certificates issued by Zengcheng Municipal Land Resources and Housing Administrative Bureau, the building ownerships of the property comprising a total gross floor area of 924.00 sq m have been vested in 廣州凱洲自來水有限公司 (Guangzhou Kaizhou Water Supply Company Limited).

No.	Date of issue	Location	Gross floor area (sq m)
C6632529	September 10, 2008	Generator room	120.00
C6632570	September 11, 2008	Generator room	172.80
C6632569	September 11, 2008	Pump room, Generator room	307.20
C6632526	September 11, 2008	Pump Room	162.00
C6632525	September 11, 2008	Medicine room	162.00
Total			<u>924.00</u>

- (3) According to Real Estate Transfer Contract No. TC20080307 dated January 21, 2008 entered into between 廣州滔記實業發展集團有限公司 (Guangzhou To Kee Enterprises Development Group Limited) (Party A) and 廣州凱洲自來水有限公司 (Guangzhou Kaizhou Water Supply Company Limited) (Party B), Party A sold the property with a total site area of 9,604.10 sq m and a total gross floor area of 924.00 sq m to Party B at a consideration of RMB1,380,000.

- (4) According to Business Licence No. 007401, 廣州凱洲自來水有限公司 (Guangzhou Kaizhou Water Supply Company Limited) was established as a limited company on September 28, 2003 with a registered capital of HKD20,000,000.
- (5) We have been provided with a legal opinion issued by the Company's PRC legal advisor, which contains, inter alia, the following information:
- (i) The property under State-owned Land Use Rights Certificate No. (2008)B0401598 with a site area of 9,604.10 sq m and 5 copies of Real Estate Title Certificates with a total gross floor area of 924.00 sq m is mortgaged to Industrial and Commercial Bank of China Limited, Guangzhou Xintang Branch for a loan with the security term from December 18, 2008 to December 31, 2014. Under such mortgage contract, 廣州凱洲自來水有限公司 (Guangzhou Kaizhou Water Supply Company Limited) cannot transfer the land use rights and the building ownership rights of the property without Industrial and Commercial Bank of China Limited's agreement in the mortgage period;
 - (ii) The State-owned Land Use Rights Certificate and Real Estate Title Certificate are valid, legal and enforceable under the PRC laws;
 - (iii) Zengcheng Urban and Rural Planning Bureau and Zengcheng Municipal Land Resources and Housing Administrative Bureau had issued Approvals dated January 5, 2011 to 廣州凱洲自來水有限公司 (Guangzhou Kaizhou Water Supply Company Limited) that the planning as water purifying plant and the land use can thus be changed to industrial use. The change in land use would not affect the legality and ownership of the buildings erected thereon;
 - (iv) The land use rights of the property, comprising a site area of 9,604.10 sq m and a gross floor area of 924.00 sq m have been vested in 廣州凱洲自來水有限公司 (Guangzhou Kaizhou Water Supply Company Limited);
 - (v) 廣州凱洲自來水有限公司 (Guangzhou Kaizhou Water Supply Company Limited) is the sole legal owner of the property;
 - (vi) 廣州凱洲自來水有限公司 (Guangzhou Kaizhou Water Supply Company Limited) has the right to occupy, use, lease, transfer, mortgage and dispose of the land use rights and building ownership of the property; and
 - (vii) 廣州凱洲自來水有限公司 (Guangzhou Kaizhou Water Supply Company Limited) is a limited liability company established in accordance with the laws of the PRC and owned as to 100% by the Company.
- (6) The status of title and grant of major approvals and licence in accordance with the information provided by the Group and the opinion of the PRC legal adviser:
- | | |
|---|-----|
| State-owned Land Use Rights Certificate | Yes |
| Real Estate Title Certificate | Yes |
| Real Estate Transfer Contract | Yes |
| Business Licence | Yes |

VALUATION CERTIFICATE

Group II — Properties held by the Group under licence in the PRC

Property	Description and Tenure	Particular of Occupancy	Market Value in existing state as at April 30, 2011												
3. Yonghe Haitao Wastewater Treatment Facility (Phase I and Phase II), situated at Tangmei Village, Xintang Town, Zengcheng City, Guangdong Province, the PRC 中國廣東省增城市新塘鎮塘美村永和海滔污水處理設施 (一期及二期)	The property comprises a wastewater treatment facility with a total gross floor area of approximately 13,457.90 sq m erected on a parcel of land with a site area of approximately 141,274.61 sq m which Phase I was completed in 2010 and Phase II is scheduled to be completed in 2012 with area details as follows: <table border="1"> <thead> <tr> <th>Use</th> <th>Gross floor area (sq m)</th> </tr> </thead> <tbody> <tr> <td>Office</td> <td>1,011.00</td> </tr> <tr> <td>Dormitory Buildings</td> <td>940.00</td> </tr> <tr> <td>Facilities</td> <td>1,971.00</td> </tr> <tr> <td></td> <td><u>9,535.90</u></td> </tr> <tr> <td>Total</td> <td><u>13,457.90</u></td> </tr> </tbody> </table> <p>According to the PRC legal opinion, 廣州海滔環保科技有限公司 (Guangzhou Haitao Environmental Protection Technology Company Limited) is entitled to use and occupy the land for a license period of 25 years from August 31, 2010.</p>	Use	Gross floor area (sq m)	Office	1,011.00	Dormitory Buildings	940.00	Facilities	1,971.00		<u>9,535.90</u>	Total	<u>13,457.90</u>	The property is currently owner-occupied by the Group as a wastewater treatment facility.	No commercial value
Use	Gross floor area (sq m)														
Office	1,011.00														
Dormitory Buildings	940.00														
Facilities	1,971.00														
	<u>9,535.90</u>														
Total	<u>13,457.90</u>														

Notes:

(1) According to BOT Licence Agreement of Zengcheng Xintang Yonghe Wastewater Treatment Facility Project dated December 23, 2009, the salient terms are summarized as follows:

- | | | |
|------------------------|---|--|
| (i) Party A | : | Government of Xintang Town, Zengcheng |
| (ii) Party B | : | 廣州海滔環保科技有限公司 (Guangzhou Haitao Environmental Protection Technology Company Limited) |
| (iii) Project type | : | BOT |
| (iv) Scope of business | : | Investment, construction, purchase, operation and transfer |
| (v) Operation period | : | 25 years commencing on August 31, 2010 |
| (vi) Covenant | : | Party B will transfer to Party A when the operation period expiry with nil compensation. |

(2) According to Construction Land Use Planning Permit No. (2009) 209 issued by Planning Administration Bureau of Zengcheng dated December 8, 2009, with details as follows:

- | | | |
|-------------------|---|--|
| (i) User | : | 增城市新塘鎮人民政府 (Government of Xintang Town, Zengcheng) |
| (ii) Project name | : | 永和污水處理廠 (Yonghe Wastewater Treatment Facility) |
| (iii) Location | : | Tangmei Village, Xintang Town, Zengcheng |
| (iv) Site area | : | 141,274.61 sq m |

- (3) According to 15 Construction Work Planning Permits issued by Planning Administration Bureau of Zengcheng, a total gross floor area of 13,457.90 sq m is in compliance with the planning requirement with details as follows:

No.	Date of issue	Name of construction work	Gross floor area (sq m)
(2010)90	March 2, 2010	R1	324.00
(2010)91	March 2, 2010	U1	216.00
(2010)92	March 2, 2010	H1	84.00
(2010)100	March 4, 2010	Y1	940.00
(2010)101	March 4, 2010	F1, F2	2,369.00
(2010)102	March 4, 2010	G1, G2	912.80
(2010)105	March 8, 2010	D1, D2, E1, E2	4,960.80
(2010)106	March 8, 2010	X1	1,011.00
(2010)107	March 8, 2010	S1	444.00
(2010)108	March 8, 2010	T1	180.00
(2010)109	March 8, 2010	O1, O2, O3	339.30
(2010)110	March 8, 2010	K1, J1	870.00
(2010)111	March 8, 2010	P1, Q1	615.00
(2010)112	March 8, 2010	N1, M1	72.00
(2010)113	March 8, 2010	B1	120.00
Total			<u>13,457.90</u>

- (4) According to Construction Work Commencement Permit No.440125201006282101 issued by Construction Administration Bureau of Zengcheng dated June 28, 2010, with details as follows:

- (i) Construction party : 廣州海滔環保科技有限公司 (Guangzhou Haitao Environmental Protection Technology Company Limited)
- (ii) Project name : 永和污水處理廠 (Yonghe Wastewater Treatment Facility)
- (iii) Location : Tangmei Village, Xintang Town, Zengcheng
- (iv) Gross floor area : 13,457.90 sq m

- (5) According to Business Licence No. 440101000035253, 廣州海滔環保科技有限公司 (Guangzhou Haitao Environmental Protection Technology Company Limited) was established as a limited company on December 4, 2009 with a registered capital of RMB30,000,000.

- (6) We have been provided with a legal opinion issued by the Company's PRC legal advisor, which contains, inter alia, the following information:

- (i) 廣州海滔環保科技有限公司 (Guangzhou Haitao Environmental Protection Technology Company Limited) has legally obtained Construction Land Use Planning Permit, Construction Work Planning Permit and Construction Work Commencement Permit and has rights to build the buildings and structures;
- (ii) According to License Operation Agreement, 廣州海滔環保科技有限公司 (Guangzhou Haitao Environmental Protection Technology Company Limited) has the rights to occupy and use the property at nil consideration within the term of the licence;
- (iii) 廣州海滔環保科技有限公司 (Guangzhou Haitao Environmental Protection Technology Company Limited) has not obtained the Real Estate Title Certificate of the property; and
- (iv) 廣州海滔環保科技有限公司 (Guangzhou Haitao Environmental Protection Technology Company Limited) is a limited liability company established in accordance with the laws of the PRC and owned as to 99% by the Company.

- (7) The status of title and grant of major approvals and licence in accordance with the information provided by the Group and the opinion of the PRC legal adviser:

BOT Licence Agreement	Yes
State-owned Land Use Rights Certificate	No
Real Estate Title Certificate	No
Construction Land Use Planning Permit	Yes
Construction Work Planning Permit	Yes
Construction Work Commencement Permit	Yes
Business Licence	Yes

VALUATION CERTIFICATE

Property	Description and Tenure	Particular of Occupancy	Market Value in existing state as at April 30, 2011												
4. Longmen Xilin Wastewater Treatment Facility (Phase I and Phase II), situated at Paizai, Daiwu Village, south of Longmen County, Huizhou City, Guangdong Province, the PRC 中國廣東省惠州市龍門縣城南部戴屋村派仔龍門西林污水處理設施（一期及二期）	The property comprises a wastewater treatment facility with a total gross floor area of approximately 3,388.88 sq m erected on a parcel of land with a site area of approximately 19,355 sq m which Phase I was completed in 2009 and Phase II was completed in 2010 with area details as follows: <table border="1"> <thead> <tr> <th>Use</th> <th>Gross floor area (sq m)</th> </tr> </thead> <tbody> <tr> <td>Office</td> <td>621.00</td> </tr> <tr> <td>Dormitory</td> <td>396.00</td> </tr> <tr> <td>Buildings</td> <td>564.00</td> </tr> <tr> <td>Facilities</td> <td>1,807.88</td> </tr> <tr> <td>Total</td> <td><u>3,388.88</u></td> </tr> </tbody> </table> <p>According to the PRC legal opinion, 龍門縣西林水質淨化有限公司 (Longmen Xilin Wastewater Treatment Company Limited) is entitled to use and occupy the land for a license period of 30 years from August 12, 2009.</p>	Use	Gross floor area (sq m)	Office	621.00	Dormitory	396.00	Buildings	564.00	Facilities	1,807.88	Total	<u>3,388.88</u>	As at the date of valuation, the property was physically completed and owner-occupied by the Group as a wastewater treatment facility.	No commercial value
Use	Gross floor area (sq m)														
Office	621.00														
Dormitory	396.00														
Buildings	564.00														
Facilities	1,807.88														
Total	<u>3,388.88</u>														

Notes:

- (1) According to BOT Licence Agreement of Longmen Xilin Wastewater Treatment Facility Project dated December 11, 2007, the salient terms are summarized as follows:
- (i) Party A : Government of Longmen County
- (ii) Party B : 廣州新滔水質淨化有限公司 (Guangzhou Xintao Wastewater Treatment Company Limited)
- (iii) Project type : BOT
- (iv) Scope of business : Investment, construction, purchase, operation and transfer
- (v) Operation period : 30 years commencing from the completion date
- (vi) Covenant : Party B will transfer to Party A when the operation period expiry with nil compensation.
- (2) According to Construction Land Use Planning Permit No. 4413242010043 issued by Planning and Construction Bureau of Longmen County dated May 6, 2010, a total site area of 19,355.00 sq m is for wastewater treatment facility and is in compliance with the planning requirement.

- (3) According to 10 Construction Work Planning Permits issued by Planning Administration Bureau of Longmen County, a total gross floor area of 2,867.80 sq m is in compliance with the planning requirement with details as follows:

No.	Date of issue	Name of construction work	Gross floor area (sq m)
4413242008081	July 31, 2008	Office	621.00
4413242008082	July 31, 2008	Accommodation	396.00
4413242008083	July 31, 2008	Guarding room	9.00
4413242008084	July 31, 2008	Maintenance shop	96.00
4413242008085	July 31, 2008	Pump room, catchment	112.00
4413242008086	July 31, 2008	Dehydration room	198.00
4413242008087	July 31, 2008	Power distribution room, substation room	261.00
4413242009113	January 1, 2009	Sedimentation, tank	572.26
4413242009112	January 1, 2009	Oxidation ditch	1,073.38
4413242009114	January 1, 2009	Concentrated tank	50.24
Total			3,388.88

- (4) According to Construction Work Commencement Permit No. 441324201006041101 issued by Construction Administration Bureau of Longmen County dated June 4, 2010, with details as follows:

- (i) Construction party : 龍門縣西林水質淨化有限公司 (Longmen Xilin Wastewater Treatment Company Limited)
- (ii) Project name : Longmen Wastewater Treatment Facility, Phase II
- (iii) Location : Paizai, Daiwu Village, south of Longmen County
- (iv) Gross floor area : 1,696.22 sq m

- (5) According to Business Licence No. 44132400002371, 龍門縣西林水質淨化有限公司 (Longmen Xilin Wastewater Treatment Company Limited) was established as a limited company on March 21, 2008 with a registered capital of RMB5,000,000.

- (6) We have been provided with a legal opinion issued by the Company's PRC legal advisor, which contains, inter alia, the following information:

- (i) 龍門縣西林水質淨化有限公司 (Longmen Xilin Wastewater Treatment Company Limited) has legally obtained Construction Land Use Planning Permit, Construction Work Planning Permit and Construction Work Commencement Permit and has rights to build the buildings and structures;
- (ii) According to License Operation Agreement, 龍門縣西林水質淨化有限公司 (Longmen Xilin Wastewater Treatment Company Limited) has the rights to occupy and use the property at nil consideration within the term of the licence;
- (iii) 龍門縣西林水質淨化有限公司 (Longmen Xilin Wastewater Treatment Company Limited) has not obtained the Real Estate Title Certificate of the property; and
- (iv) 龍門縣西林水質淨化有限公司 (Longmen Xilin Wastewater Treatment Company Limited) is a limited liability company established in accordance with the laws of the PRC and owned as to 100% by the Company.

- (7) The status of title and grant of major approvals and licence in accordance with the information provided by the Group and the opinion of the PRC legal adviser:

BOT Licence Agreement	Yes
State-owned Land Use Rights Certificate	No
Real Estate Title Certificate	No
Construction Land Use Planning Permit	Yes
Construction Work Planning Permit	Yes
Construction Work Commencement Permit	Yes
Business Licence	Yes

VALUATION CERTIFICATE

Property	Description and Tenure	Particular of Occupancy	Market Value in existing state as at April 30, 2011								
5. Huaihua Tianyuan Treatment Facility (Phase I and Phase II), situated at south of No. 5 Highway, Zhongfang County, Huaihua Industrial Park, Huaihua City, Hunan Province, the PRC 中國湖南省懷化市懷化工業園區中方縣城5號路南側懷化天源污水處理設施(一期及二期)	<p>The property comprises a wastewater treatment facility with a total gross floor area of approximately 13,596.36 sq m erected on a parcel of land with a site area of approximately 80,288.00 sq m which Phase I was completed in 2010 and Phase II is scheduled to be completed in 2012 with area details as follows:</p> <table border="1"> <thead> <tr> <th>Use</th> <th>Gross floor area (sq m)</th> </tr> </thead> <tbody> <tr> <td>Buildings</td> <td>1,415.00</td> </tr> <tr> <td>Facilities</td> <td><u>12,181.36</u></td> </tr> <tr> <td>Total</td> <td><u>13,596.36</u></td> </tr> </tbody> </table> <p>According to the PRC legal opinion, 懷化天源污水處理投資有限公司 (Huaihua Tianyuan Wastewater Treatment Company Limited) is entitled to use and occupy the land for a license period of 25 years from May 1, 2010.</p>	Use	Gross floor area (sq m)	Buildings	1,415.00	Facilities	<u>12,181.36</u>	Total	<u>13,596.36</u>	The property is currently owner-occupied by the Group as a wastewater treatment facility.	No commercial value
Use	Gross floor area (sq m)										
Buildings	1,415.00										
Facilities	<u>12,181.36</u>										
Total	<u>13,596.36</u>										

Notes:

- (1) According to BOT Licence Agreement of Huaihua Natural Source Wastewater Treatment Facility Project dated June 16, 2009, the salient terms are summarized as follows:
 - (i) Party A : Administration Committee of Huaihua Industrial Zone
 - (ii) Party B : 懷化天源污水處理投資有限公司 (Huaihua Tianyuan Wastewater Treatment Company Limited)
 - (iii) Project type : BOT
 - (iv) Scope of business : Investment, construction, purchase, operation and transfer
 - (v) Operation period : 25 years commencing on May 1, 2010
 - (vi) Covenant : Party B will transfer to Party A when the operation period expiry with nil compensation.
- (2) According to Construction Land Use Planning Permit No. 200907113 issued by Huaihua Construction Bureau of Industrial Zone dated July 13, 2009, a total site area of 80,288.00 sq m is for wastewater treatment facility and is in compliance with the planning requirement.
- (3) According to Construction Work Planning Permit No. 20090780 issued by Huaihua Construction Bureau of Industrial Zone dated July 19, 2009, 懷化天源污水處理投資有限公司 (Huaihua Tianyuan Wastewater Treatment Company Limited) is the construction party of the buildings and constructions with a total gross floor area of 13,596.36 sq m and is in compliance with the planning requirement.

- (4) According to Construction Work Commencement Permit No.13-433001200907240101, issued by Huaihua Construction Bureau of Industrial Zone dated July 24, 2009, with details as follows:
- (i) Construction party : 懷化天源污水處理投資有限公司 (Huaihua Tianyuan Wastewater Treatment Company Limited)
 - (ii) Project name : Huaihua Natual Source Wastewater Treatment Facility
 - (iii) Location : South of No. 5 Highway, Huaihua Industrial Zone
 - (iv) Gross floor area : 13,596.36 sq m
- (5) According to Business Licence No. 431200000021227(2-2), 懷化天源污水處理投資有限公司 (Huaihua Tianyuan Wastewater Treatment Company Limited) was established as a limited company on May 21, 2009 with a registered capital of RMB10,000,000.
- (6) We have been provided with a legal opinion issued by the Company's PRC legal advisor, which contains, inter alia, the following information:
- (i) 懷化天源污水處理投資有限公司 (Huaihua Tianyuan Wastewater Treatment Company Limited) has legally obtained Construction Land Use Planning Permit, Construction Work Planning Permit and Construction Work Commencement Permit and has rights to build the buildings and structures;
 - (ii) According to License Operation Agreement, 懷化天源污水處理投資有限公司 (Huaihua Tianyuan Wastewater Treatment Company Limited) has the rights to occupy and use the property at nil consideration within the term of the licence;
 - (iii) 懷化天源污水處理投資有限公司 (Huaihua Tianyuan Wastewater Treatment Company Limited) has not obtained the Real Estate Title Certificate of the property; and
 - (iv) 懷化天源污水處理投資有限公司 (Huaihua Tianyuan Wastewater Treatment Company Limited) is a limited liability company established in accordance with the laws of the PRC and owned as to 75% by the Company.
- (7) The status of title and grant of major approvals and licence in accordance with the information provided by the Group and the opinion of the PRC legal adviser:
- | | |
|---|-----|
| BOT Licence Agreement | Yes |
| State-owned Land Use Rights Certificate | No |
| Real Estate Title Certificate | No |
| Construction Land Use Planning Permit | Yes |
| Construction Work Planning Permit | Yes |
| Construction Work Commencement Permit | Yes |
| Business Licence | Yes |

APPENDIX V SUMMARY OF THE CONSTITUTION OF THE COMPANY AND CAYMAN ISLANDS COMPANY LAW

Set out below is a summary of certain provisions of the Memorandum and Articles of Association of the Company and of certain aspects of Cayman company law.

The Company was incorporated in the Cayman Islands as an exempted company with limited liability on November 30, 2010 under the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands (the “Companies Law”). The Memorandum of Association (the “Memorandum”) and the Articles of Association (the “Articles”) comprise its constitution.

1. MEMORANDUM OF ASSOCIATION

- (a) The Memorandum states, inter alia, that the liability of members of the Company is limited to the amount, if any, for the time being unpaid on the Shares respectively held by them and that the objects for which the Company is established are unrestricted (including acting as an investment company), and that the Company shall have and be capable of exercising all the functions of a natural person of full capacity irrespective of any question of corporate benefit, as provided in section 27(2) of the Companies Law and in view of the fact that the Company is an exempted company that the Company will not trade in the Cayman Islands with any person, firm or corporation except in furtherance of the business of the Company carried on outside the Cayman Islands.
- (b) The Company may by special resolution alter its Memorandum with respect to any objects, powers or other matters specified therein.

2. ARTICLES OF ASSOCIATION

The Articles were conditionally adopted on June 14, 2011. The following is a summary of certain provisions of the Articles:

(a) Directors

(i) *Power to allot and issue shares and warrants*

Subject to the provisions of the Companies Law and the Memorandum and Articles and to any special rights conferred on the holders of any shares or class of shares, any share may be issued with or have attached thereto such rights, or such restrictions, whether with regard to dividend, voting, return of capital, or otherwise, as the Company may by ordinary resolution determine (or, in the absence of any such determination or so far as the same may not make specific provision, as the board may determine). Subject to the Companies Law, the rules of any Designated Stock Exchange (as defined in the Articles) and the Memorandum and Articles, any share may be issued on terms that, at the option of the Company or the holder thereof, they are liable to be redeemed.

The board may issue warrants conferring the right upon the holders thereof to subscribe for any class of shares or securities in the capital of the Company on such terms as it may from time to time determine.

Subject to the provisions of the Companies Law and the Articles and, where applicable, the rules of any Designated Stock Exchange (as defined in the Articles) and without prejudice to any special rights or restrictions for the time being attached to any shares or any class of shares, all unissued shares in the Company shall be at the disposal of the board, which may offer, allot, grant options over or otherwise dispose of them to such persons, at such times, for such consideration and on such terms and conditions as it in its absolute discretion thinks fit, but so that no shares shall be issued at a discount.

Neither the Company nor the board shall be obliged, when making or granting any allotment of, offer of, option over or disposal of shares, to make, or make available, any such allotment, offer, option or shares to members or others with registered addresses in any particular territory or territories

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being a territory or territories where, in the absence of a registration statement or other special formalities, this would or might, in the opinion of the board, be unlawful or impracticable. Members affected as a result of the foregoing sentence shall not be, or be deemed to be, a separate class of members for any purpose whatsoever.

(ii) Power to dispose of the assets of the Company or any subsidiary

There are no specific provisions in the Articles relating to the disposal of the assets of the Company or any of its subsidiaries. The Directors may, however, exercise all powers and do all acts and things which may be exercised or done or approved by the Company and which are not required by the Articles or the Companies Law to be exercised or done by the Company in general meeting.

(iii) Compensation or payments for loss of office

Pursuant to the Articles, payments to any Director or past Director of any sum by way of compensation for loss of office or as consideration for or in connection with his retirement from office (not being a payment to which the Director is contractually entitled) must be approved by the Company in general meeting.

(iv) Loans and provision of security for loans to Directors

There are provisions in the Articles prohibiting the making of loans to Directors.

(v) Disclosure of interests in contracts with the Company or any of its subsidiaries.

A Director may hold any other office or place of profit with the Company (except that of the auditor of the Company) in conjunction with his office of Director for such period and, subject to the Articles, upon such terms as the board may determine, and may be paid such extra remuneration therefor (whether by way of salary, commission, participation in profits or otherwise) in addition to any remuneration provided for by or pursuant to any other Articles. A Director may be or become a director or other officer of, or otherwise interested in, any company promoted by the Company or any other company in which the Company may be interested, and shall not be liable to account to the Company or the members for any remuneration, profits or other benefits received by him as a director, officer or member of, or from his interest in, such other company. Subject as otherwise provided by the Articles, the board may also cause the voting power conferred by the shares in any other company held or owned by the Company to be exercised in such manner in all respects as it thinks fit, including the exercise thereof in favor of any resolution appointing the Directors or any of them to be directors or officers of such other company, or voting or providing for the payment of remuneration to the directors or officers of such other company.

Subject to the Companies Law and the Articles, no Director or proposed or intended Director shall be disqualified by his office from contracting with the Company, either with regard to his tenure of any office or place of profit or as vendor, purchaser or in any other manner whatsoever, nor shall any such contract or any other contract or arrangement in which any Director is in any way interested be liable to be avoided, nor shall any Director so contracting or being so interested be liable to account to the Company or the members for any remuneration, profit or other benefits realized by any such contract or arrangement by reason of such Director holding that office or the fiduciary relationship thereby established. A Director who to his knowledge is in any way, whether directly or indirectly, interested in a contract or arrangement or proposed contract or arrangement with the Company shall declare the nature of his interest at the meeting of the board at which the question of entering into the contract or arrangement is first taken into consideration, if he knows his interest then exists, or in any other case, at the first meeting of the board after he knows that he is or has become so interested.

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A Director shall not vote (nor be counted in the quorum) on any resolution of the board approving any contract or arrangement or other proposal in which he or any of his associates is materially interested, but this prohibition shall not apply to any of the following matters, namely:

- (aa) any contract or arrangement for giving to such Director or his associate(s) any security or indemnity in respect of money lent by him or any of his associates or obligations incurred or undertaken by him or any of his associates at the request of or for the benefit of the Company or any of its subsidiaries;
- (bb) any contract or arrangement for the giving of any security or indemnity to a third party in respect of a debt or obligation of the Company or any of its subsidiaries for which the Director or his associate(s) has himself/themselves assumed responsibility in whole or in part whether alone or jointly under a guarantee or indemnity or by the giving of security;
- (cc) any contract or arrangement concerning an offer of shares or debentures or other securities of or by the Company or any other company which the Company may promote or be interested in for subscription or purchase, where the Director or his associate(s) is/are or is/are to be interested as a participant in the underwriting or subunderwriting of the offer;
- (dd) any contract or arrangement in which the Director or his associate(s) is/are interested in the same manner as other holders of shares or debentures or other securities of the Company by virtue only of his/their interest in shares or debentures or other securities of the Company;
- (ee) any contract or arrangement concerning any other company in which the Director or his associate(s) is/are interested only, whether directly or indirectly, as an officer or executive or a shareholder or in which the Director and any of his associates are not in aggregate beneficially interested in 5 percent. or more of the issued shares or of the voting rights of any class of shares of such company (or of any third company through which his interest or that of any of his associates is derived); or
- (ff) any proposal or arrangement concerning the adoption, modification or operation of a share option scheme, a pension fund or retirement, death, or disability benefits scheme or other arrangement which relates both to Directors, his associates and employees of the Company or of any of its subsidiaries and does not provide in respect of any Director, or his associate(s), as such any privilege or advantage not accorded generally to the class of persons to which such scheme or fund relates.

(vi) Remuneration

The ordinary remuneration of the Directors shall from time to time be determined by the Company in general meeting, such sum (unless otherwise directed by the resolution by which it is voted) to be divided amongst the Directors in such proportions and in such manner as the board may agree or, failing agreement, equally, except that any Director holding office for part only of the period in respect of which the remuneration is payable shall only rank in such division in proportion to the time during such period for which he held office. The Directors shall also be entitled to be prepaid or repaid all travelling, hotel and incidental expenses reasonably expected to be incurred or incurred by them in attending any board meetings, committee meetings or general meetings or separate meetings of any class of shares or of debentures of the Company or otherwise in connection with the discharge of their duties as Directors.

Any Director who, by request, goes or resides abroad for any purpose of the Company or who performs services which in the opinion of the board go beyond the ordinary duties of a Director may be paid such extra remuneration (whether by way of salary, commission, participation in profits or otherwise) as the board may determine and such extra remuneration shall be in addition to or in

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substitution for any ordinary remuneration as a Director. An executive Director appointed to be a managing director, joint managing director, deputy managing director or other executive officer shall receive such remuneration (whether by way of salary, commission or participation in profits or otherwise or by all or any of those modes) and such other benefits (including pension and/or gratuity and/or other benefits on retirement) and allowances as the board may from time to time decide. Such remuneration may be either in addition to or in lieu of his remuneration as a Director.

The board may establish or concur or join with other companies (being subsidiary companies of the Company or companies with which it is associated in business) in establishing and making contributions out of the Company's monies to any schemes or funds for providing pensions, sickness or compassionate allowances, life assurance or other benefits for employees (which expression as used in this and the following paragraph shall include any Director or ex-Director who may hold or have held any executive office or any office of profit with the Company or any of its subsidiaries) and ex-employees of the Company and their dependents or any class or classes of such persons.

The board may pay, enter into agreements to pay or make grants of revocable or irrevocable, and either subject or not subject to any terms or conditions, pensions or other benefits to employees and ex-employees and their dependents, or to any of such persons, including pensions or benefits additional to those, if any, to which such employees or ex-employees or their dependents are or may become entitled under any such scheme or fund as is mentioned in the previous paragraph. Any such pension or benefit may, as the board considers desirable, be granted to an employee either before and in anticipation of, or upon or at any time after, his actual retirement.

(vii) Retirement, appointment and removal

At each annual general meeting, one third of the Directors for the time being (or if their number is not a multiple of three, then the number nearest to but not less than one third) will retire from office by rotation provided that every Director shall be subject to retirement at an annual general meeting at least once every three years. The Directors to retire in every year will be those who have been longest in office since their last re-election or appointment but as between persons who became or were last re-elected Directors on the same day those to retire will (unless they otherwise agree among themselves) be determined by lot. There are no provisions relating to retirement of Directors upon reaching any age limit.

The Directors shall have the power from time to time and at any time to appoint any person as a Director either to fill a casual vacancy on the board or as an addition to the existing board. Any Director appointed to fill a casual vacancy shall hold office until the first general meeting of members after his appointment and be subject to re-election at such meeting and any Director appointed as an addition to the existing board shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election. Neither a Director nor an alternate Director is required to hold any shares in the Company by way of qualification.

A Director may be removed by an ordinary resolution of the Company before the expiration of his period of office (but without prejudice to any claim which such Director may have for damages for any breach of any contract between him and the Company) and may by ordinary resolution appoint another in his place. Unless otherwise determined by the Company in general meeting, the number of Directors shall not be less than two. There is no maximum number of Directors.

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The office of director shall be vacated:

- (aa) if he resigns his office by notice in writing delivered to the Company at the registered office of the Company for the time being or tendered at a meeting of the Board;
- (bb) becomes of unsound mind or dies;
- (cc) if, without special leave, he is absent from meetings of the board (unless an alternate director appointed by him attends) for six (6) consecutive months, and the board resolves that his office is vacated;
- (dd) if he becomes bankrupt or has a receiving order made against him or suspends payment or compounds with his creditors;
- (ee) if he is prohibited from being a director by law;
- (ff) if he ceases to be a director by virtue of any provision of law or is removed from office pursuant to the Articles.

The board may from time to time appoint one or more of its body to be managing director, joint managing director, or deputy managing director or to hold any other employment or executive office with the Company for such period and upon such terms as the board may determine and the board may revoke or terminate any of such appointments. The board may delegate any of its powers, authorities and discretions to committees consisting of such Director or Directors and other persons as the board thinks fit, and it may from time to time revoke such delegation or revoke the appointment of and discharge any such committees either wholly or in part, and either as to persons or purposes, but every committee so formed shall, in the exercise of the powers, authorities and discretions so delegated, conform to any regulations that may from time to time be imposed upon it by the board.

(viii) Borrowing powers

The board may exercise all the powers of the Company to raise or borrow money, to mortgage or charge all or any part of the undertaking, property and assets (present and future) and uncalled capital of the Company and, subject to the Companies Law, to issue debentures, bonds and other securities of the Company, whether outright or as collateral security for any debt, liability or obligation of the Company or of any third party.

Note: These provisions, in common with the Articles in general, can be varied with the sanction of a special resolution of the Company.

(ix) Proceedings of the Board

The board may meet for the despatch of business, adjourn and otherwise regulate their meetings as they think fit. Questions arising at any meeting shall be determined by a majority of votes. In the case of an equality of votes, the chairman of the meeting shall have an additional or casting vote.

(x) Register of Directors and Officers

The Companies Law and the Articles provide that the Company is required to maintain at its registered office a register of directors and officers which is not available for inspection by the public. A copy of such register must be filed with the Registrar of Companies in the Cayman Islands and any change must be notified to the Registrar within thirty (30) days of any change in such directors or officers.

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(b) Alterations to constitutional documents

The Articles may be rescinded, altered or amended by the Company in general meeting by special resolution. The Articles state that a special resolution shall be required to alter the provisions of the Memorandum, to amend the Articles or to change the name of the Company.

(c) Alteration of capital

The Company may from time to time by ordinary resolution in accordance with the relevant provisions of the Companies Law:

- (i) increase its capital by such sum, to be divided into shares of such amounts as the resolution shall prescribe;
- (ii) consolidate and divide all or any of its capital into shares of larger amount than its existing shares;
- (iii) divide its shares into several classes and without prejudice to any special rights previously conferred on the holders of existing shares attach thereto respectively any preferential, deferred, qualified or special rights, privileges, conditions or restrictions as the Company in general meeting or as the directors may determine;
- (iv) sub-divide its shares or any of them into shares of smaller amount than is fixed by the Memorandum, subject nevertheless to the provisions of the Companies Law, and so that the resolution whereby any share is sub-divided may determine that, as between the holders of the shares resulting from such sub-division, one or more of the shares may have any such preferred or other special rights, over, or may have such deferred rights or be subject to any such restrictions as compared with the others as the Company has power to attach to unissued or new shares; or
- (v) cancel any shares which, at the date of passing of the resolution, have not been taken, or agreed to be taken, by any person, and diminish the amount of its capital by the amount of the shares so cancelled.

The Company may subject to the provisions of the Companies Law reduce its share capital or any capital redemption reserve or other undistributable reserve in any way by special resolution.

(d) Variation of rights of existing shares or classes of shares

Subject to the Companies Law, all or any of the special rights attached to the shares or any class of shares may (unless otherwise provided for by the terms of issue of that class) be varied, modified or abrogated either with the consent in writing of the holders of not less than three-fourths in nominal value of the issued shares of that class or with the sanction of a special resolution passed at a separate general meeting of the holders of the shares of that class. To every such separate general meeting the provisions of the Articles relating to general meetings will *mutatis mutandis* apply, but so that the necessary quorum (other than at an adjourned meeting) shall be two persons holding or representing by proxy not less than one-third in nominal value of the issued shares of that class and at any adjourned meeting two holders present in person or by proxy whatever the number of shares held by them shall be a quorum. Every holder of shares of the class shall be entitled to one vote for every such share held by him.

The special rights conferred upon the holders of any shares or class of shares shall not, unless otherwise expressly provided in the rights attaching to the terms of issue of such shares, be deemed to be varied by the creation or issue of further shares ranking *pari passu* therewith.

(e) Special resolution-majority required

Pursuant to the Articles, a special resolution of the Company must be passed by a majority of not less than three-fourths of the votes cast by such members as, being entitled to do so, vote in person

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or, in the case of such members as are corporations, by their duly authorized representatives or, where proxies are allowed, by proxy at a general meeting of which notice of not less than twenty-one (21) clear days and not less than ten (10) clear business days specifying the intention to propose the resolution as a special resolution, has been duly given. Provided that if permitted by the Designated Stock Exchange (as defined in the Articles), except in the case of an annual general meeting, if it is so agreed by a majority in number of the members having a right to attend and vote at such meeting, being a majority together holding not less than ninety-five per cent. (95%) in nominal value of the shares giving that right and, in the case of an annual general meeting, if so agreed by all Members entitled to attend and vote thereat, a resolution may be proposed and passed as a special resolution at a meeting of which notice of less than twenty-one (21) clear days and less than ten (10) clear business days has been given.

A copy of any special resolution must be forwarded to the Registrar of Companies in the Cayman Islands within fifteen (15) days of being passed.

An ordinary resolution is defined in the Articles to mean a resolution passed by a simple majority of the votes of such members of the Company as, being entitled to do so, vote in person or, in the case of corporations, by their duly authorized representatives or, where proxies are allowed, by proxy at a general meeting held in accordance with the Articles.

(f) Voting rights

Subject to any special rights or restrictions as to voting for the time being attached to any shares by or in accordance with the Articles, at any general meeting on a poll every member present in person or by proxy or, in the case of a member being a corporation, by its duly authorized representative shall have one vote for every fully paid share of which he is the holder but so that no amount paid up or credited as paid up on a share in advance of calls or installments is treated for the foregoing purposes as paid up on the share. A member entitled to more than one vote need not use all his votes or cast all the votes he uses in the same way.

At any general meeting a resolution put to the vote of the meeting is to be decided by way of a poll.

If a recognized clearing house (or its nominee(s)) is a member of the Company it may authorize such person or persons as it thinks fit to act as its representative(s) at any meeting of the Company or at any meeting of any class of members of the Company provided that, if more than one person is so authorized, the authorization shall specify the number and class of shares in respect of which each such person is so authorized. A person authorized pursuant to this provision shall be deemed to have been duly authorized without further evidence of the facts and be entitled to exercise the same powers on behalf of the recognized clearing house (or its nominee(s)) as if such person was the registered holder of the shares of the Company held by that clearing house (or its nominee(s)).

Where the Company has any knowledge that any shareholder is, under the rules of the Designated Stock Exchange (as defined in the Articles), required to abstain from voting on any particular resolution of the Company or restricted to voting only for or only against any particular resolution of the Company, any votes cast by or on behalf of such shareholder in contravention of such requirement or restriction shall not be counted.

(g) Requirements for annual general meetings

An annual general meeting of the Company must be held in each year, other than the year of adoption of the Articles (within a period of not more than fifteen (15) months after the holding of the last preceding annual general meeting or a period of eighteen (18) months from the date of adoption of the Articles, unless a longer period would not infringe the rules of any Designated Stock Exchange (as defined in the Articles)) at such time and place as may be determined by the board.

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(h) Accounts and audit

The board shall cause true accounts to be kept of the sums of money received and expended by the Company, and the matters in respect of which such receipt and expenditure take place, and of the property, assets, credits and liabilities of the Company and of all other matters required by the Companies Law or necessary to give a true and fair view of the Company's affairs and to explain its transactions.

The accounting records shall be kept at the registered office or at such other place or places as the board decides and shall always be open to inspection by any Director. No member (other than a Director) shall have any right to inspect any accounting record or book or document of the Company except as conferred by law or authorized by the board or the Company in general meeting.

A copy of every balance sheet and profit and loss account (including every document required by law to be annexed thereto) which is to be laid before the Company at its general meeting, together with a printed copy of the Directors' report and a copy of the auditors' report, shall not less than twenty-one (21) days before the date of the meeting and at the same time as the notice of annual general meeting be sent to every person entitled to receive notices of general meetings of the Company under the provisions the Articles; however, subject to compliance with all applicable laws, including the rules of the Designated Stock Exchange (as defined in the Articles), the Company may send to such persons summarized financial statements derived from the Company's annual accounts and the directors' report instead provided that any such person may by notice in writing served on the Company, demand that the Company sends to him, in addition to summarized financial statements, a complete printed copy of the Company's annual financial statement and the directors' report thereon.

Auditors shall be appointed and the terms and tenure of such appointment and their duties at all times regulated in accordance with the provisions of the Articles. The remuneration of the auditors shall be fixed by the Company in general meeting or in such manner as the members may determine.

The financial statements of the Company shall be audited by the auditor in accordance with generally accepted auditing standards. The auditor shall make a written report thereon in accordance with generally accepted auditing standards and the report of the auditor shall be submitted to the members in general meeting. The generally accepted auditing standards referred to herein may be those of a country or jurisdiction other than the Cayman Islands. If so, the financial statements and the report of the auditor should disclose this fact and name such country or jurisdiction.

(i) Notices of meetings and business to be conducted thereat

An annual general meeting shall be called by notice of not less than twenty-one (21) clear days and not less than twenty (20) clear business days and any extraordinary general meeting at which it is proposed to pass a special resolution shall (save as set out in sub-paragraph (e) above) be called by notice of at least twenty-one (21) clear days and not less than ten (10) clear business days. All other extraordinary general meetings shall be called by notice of at least fourteen (14) clear days and not less than ten (10) clear business days. The notice must specify the time and place of the meeting and, in the case of special business, the general nature of that business. In addition notice of every general meeting shall be given to all members of the Company other than such as, under the provisions of the Articles or the terms of issue of the shares they hold, are not entitled to receive such notices from the Company, and also to the auditors for the time being of the Company.

Notwithstanding that a meeting of the Company is called by shorter notice than that mentioned above if permitted by the rules of the Designated Stock Exchange, it shall be deemed to have been duly called if it is so agreed:

- (i) in the case of a meeting called as an annual general meeting, by all members of the Company entitled to attend and vote thereat; and

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- (ii) in the case of any other meeting, by a majority in number of the members having a right to attend and vote at the meeting, being a majority together holding not less than ninety-five per cent (95%) in nominal value of the issued shares giving that right.

All business shall be deemed special that is transacted at an extraordinary general meeting and also all business shall be deemed special that is transacted at an annual general meeting with the exception of the following, which shall be deemed ordinary business:

- (aa) the declaration and sanctioning of dividends;
- (bb) the consideration and adoption of the accounts and balance sheet and the reports of the directors and the auditors;
- (cc) the election of directors in place of those retiring;
- (dd) the appointment of auditors and other officers;
- (ee) the fixing of the remuneration of the directors and of the auditors;
- (ff) the granting of any mandate or authority to the directors to offer, allot, grant options over or otherwise dispose of the unissued shares of the Company representing not more than twenty per cent (20%) in nominal value of its existing issued share capital; and
- (gg) the granting of any mandate or authority to the directors to repurchase securities of the Company.

(j) Transfer of shares

All transfers of shares may be effected by an instrument of transfer in the usual or common form or in a form prescribed by the Designated Stock Exchange (as defined in the Articles) or in such other form as the board may approve and which may be under hand or, if the transferor or transferee is a clearing house or its nominee(s), by hand or by machine imprinted signature or by such other manner of execution as the board may approve from time to time. The instrument of transfer shall be executed by or on behalf of the transferor and the transferee provided that the board may dispense with the execution of the instrument of transfer by the transferee in any case in which it thinks fit, in its discretion, to do so and the transferor shall be deemed to remain the holder of the share until the name of the transferee is entered in the register of members in respect thereof. The board may also resolve either generally or in any particular case, upon request by either the transferor or the transferee, to accept mechanically executed transfers.

The board in so far as permitted by any applicable law may, in its absolute discretion, at any time and from time to time transfer any share upon the principal register to any branch register or any share on any branch register to the principal register or any other branch register.

Unless the board otherwise agrees, no shares on the principal register shall be transferred to any branch register nor may shares on any branch register be transferred to the principal register or any other branch register. All transfers and other documents of title shall be lodged for registration and registered, in the case of shares on a branch register, at the relevant registration office and, in the case of shares on the principal register, at the registered office in the Cayman Islands or such other place at which the principal register is kept in accordance with the Companies Law.

The board may, in its absolute discretion, and without assigning any reason, refuse to register a transfer of any share (not being a fully paid up share) to a person of whom it does not approve or any share issued under any share incentive scheme for employees upon which a restriction on transfer imposed thereby still subsists, and it may also refuse to register any transfer of any share to more than four joint holders or any transfer of any share (not being a fully paid up share) on which the Company has a lien.

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The board may decline to recognize any instrument of transfer unless a fee of such maximum sum as any Designated Stock Exchange (as defined in the Articles) may determine to be payable or such lesser sum as the Directors may from time to time require is paid to the Company in respect thereof, the instrument of transfer, if applicable, is properly stamped, is in respect of only one class of share and is lodged at the relevant registration office or registered office or such other place at which the principal register is kept accompanied by the relevant share certificate(s) and such other evidence as the board may reasonably require to show the right of the transferor to make the transfer (and if the instrument of transfer is executed by some other person on his behalf, the authority of that person so to do).

The registration of transfers may be suspended and the register closed on giving notice by advertisement in a relevant newspaper and, where applicable, any other newspapers in accordance with the requirements of any Designated Stock Exchange (as defined in the Articles), at such times and for such periods as the board may determine and either generally or in respect of any class of shares. The register of members shall not be closed for periods exceeding in the whole thirty (30) days in any year.

(k) Power for the Company to purchase its own shares

The Company is empowered by the Companies Law and the Articles to purchase its own Shares subject to certain restrictions and the Board may only exercise this power on behalf of the Company subject to any applicable requirements imposed from time to time by any Designated Stock Exchange (as defined in the Articles).

(l) Power for any subsidiary of the Company to own shares in the Company and financial assistance to purchase shares of the Company

There are no provisions in the Articles relating to ownership of shares in the Company by a subsidiary.

Subject to compliance with the rules and regulations of the Designated Stock Exchange (as defined in the Articles) and any other relevant regulatory authority, the Company may give financial assistance for the purpose of or in connection with a purchase made or to be made by any person of any shares in the Company.

(m) Dividends and other methods of distribution

Subject to the Companies Law, the Company in general meeting may declare dividends in any currency to be paid to the members but no dividend shall be declared in excess of the amount recommended by the board.

The Articles provide dividends may be declared and paid out of the profits of the Company, realized or unrealized, or from any reserve set aside from profits which the directors determine is no longer needed. With the sanction of an ordinary resolution dividends may also be declared and paid out of share premium account or any other fund or account which can be authorized for this purpose in accordance with the Companies Law.

Except in so far as the rights attaching to, or the terms of issue of, any share may otherwise provide, (i) all dividends shall be declared and paid according to the amounts paid up on the shares in respect whereof the dividend is paid but no amount paid up on a share in advance of calls shall for this purpose be treated as paid up on the share and (ii) all dividends shall be apportioned and paid pro rata according to the amount paid up on the shares during any portion or portions of the period in respect of which the dividend is paid. The Directors may deduct from any dividend or other monies payable to any member or in respect of any shares all sums of money (if any) presently payable by him to the Company on account of calls or otherwise.

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Whenever the board or the Company in general meeting has resolved that a dividend be paid or declared on the share capital of the Company, the board may further resolve either (a) that such dividend be satisfied wholly or in part in the form of an allotment of shares credited as fully paid up, provided that the shareholders entitled thereto will be entitled to elect to receive such dividend (or part thereof) in cash in lieu of such allotment, or (b) that shareholders entitled to such dividend will be entitled to elect to receive an allotment of shares credited as fully paid up in lieu of the whole or such part of the dividend as the board may think fit. The Company may also upon the recommendation of the board by an ordinary resolution resolve in respect of any one particular dividend of the Company that it may be satisfied wholly in the form of an allotment of shares credited as fully paid up without offering any right to shareholders to elect to receive such dividend in cash in lieu of such allotment.

Any dividend, interest or other sum payable in cash to the holder of shares may be paid by cheque or warrant sent through the post addressed to the holder at his registered address, or in the case of joint holders, addressed to the holder whose name stands first in the register of the Company in respect of the shares at his address as appearing in the register or addressed to such person and at such addresses as the holder or joint holders may in writing direct. Every such cheque or warrant shall, unless the holder or joint holders otherwise direct, be made payable to the order of the holder or, in the case of joint holders, to the order of the holder whose name stands first on the register in respect of such shares, and shall be sent at his or their risk and payment of the cheque or warrant by the bank on which it is drawn shall constitute a good discharge to the Company. Any one of two or more joint holders may give effectual receipts for any dividends or other moneys payable or property distributable in respect of the shares held by such joint holders.

Whenever the board or the Company in general meeting has resolved that a dividend be paid or declared the board may further resolve that such dividend be satisfied wholly or in part by the distribution of specific assets of any kind.

All dividends or bonuses unclaimed for one year after having been declared may be invested or otherwise made use of by the board for the benefit of the Company until claimed and the Company shall not be constituted a trustee in respect thereof. All dividends or bonuses unclaimed for six years after having been declared may be forfeited by the board and shall revert to the Company.

No dividend or other monies payable by the Company on or in respect of any share shall bear interest against the Company.

(n) Proxies

Any member of the Company entitled to attend and vote at a meeting of the Company is entitled to appoint another person as his proxy to attend and vote instead of him. A member who is the holder of two or more shares may appoint more than one proxy to represent him and vote on his behalf at a general meeting of the Company or at a class meeting. A proxy need not be a member of the Company and shall be entitled to exercise the same powers on behalf of a member who is an individual and for whom he acts as proxy as such member could exercise. In addition, a proxy shall be entitled to exercise the same powers on behalf of a member which is a corporation and for which he acts as proxy as such member could exercise if it were an individual member. Votes may be given either personally (or, in the case of a member being a corporation, by its duly authorized representative) or by proxy.

(o) Call on shares and forfeiture of shares

Subject to the Articles and to the terms of allotment, the board may from time to time make such calls upon the members in respect of any monies unpaid on the shares held by them respectively (whether on account of the nominal value of the shares or by way of premium). A call may be made payable either in one lump sum or by installments. If the sum payable in respect of any call or

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installment is not paid on or before the day appointed for payment thereof, the person or persons from whom the sum is due shall pay interest on the same at such rate not exceeding twenty per cent. (20%) per annum as the board may agree to accept from the day appointed for the payment thereof to the time of actual payment, but the board may waive payment of such interest wholly or in part. The board may, if it thinks fit, receive from any member willing to advance the same, either in money or money's worth, all or any part of the monies uncalled and unpaid or installments payable upon any shares held by him, and upon all or any of the monies so advanced the Company may pay interest at such rate (if any) as the board may decide.

If a member fails to pay any call on the day appointed for payment thereof, the board may serve not less than fourteen (14) clear days' notice on him requiring payment of so much of the call as is unpaid, together with any interest which may have accrued and which may still accrue up to the date of actual payment and stating that, in the event of non-payment at or before the time appointed, the shares in respect of which the call was made will be liable to be forfeited.

If the requirements of any such notice are not complied with, any share in respect of which the notice has been given may at any time thereafter, before the payment required by the notice has been made, be forfeited by a resolution of the board to that effect. Such forfeiture will include all dividends and bonuses declared in respect of the forfeited share and not actually paid before the forfeiture.

A person whose shares have been forfeited shall cease to be a member in respect of the forfeited shares but shall, notwithstanding, remain liable to pay to the Company all monies which, at the date of forfeiture, were payable by him to the Company in respect of the shares, together with (if the board shall in its discretion so require) interest thereon from the date of forfeiture until the date of actual payment at such rate not exceeding twenty per cent. (20%) per annum as the board determines.

(p) Inspection of register of members

Pursuant to the Articles the register and branch register of members shall be open to inspection for at least two (2) hours on every business day by members without charge, or by any other person upon a maximum payment of HK\$2.50 or such lesser sum specified by the board, at the registered office or such other place at which the register is kept in accordance with the Companies Law or, upon a maximum payment of HK\$1.00 or such lesser sum specified by the board, at the Registration Office (as defined in the Articles), unless the register is closed in accordance with the Articles.

(q) Quorum for meetings and separate class meetings

No business shall be transacted at any general meeting unless a quorum is present when the meeting proceeds to business, but the absence of a quorum shall not preclude the appointment of a chairman.

Save as otherwise provided by the Articles the quorum for a general meeting shall be two members present in person (or, in the case of a member being a corporation, by its duly authorized representative) or by proxy and entitled to vote. In respect of a separate class meeting (other than an adjourned meeting) convened to sanction the modification of class rights the necessary quorum shall be two persons holding or representing by proxy not less than one-third in nominal value of the issued shares of that class.

A corporation being a member shall be deemed for the purpose of the Articles to be present in person if represented by its duly authorized representative being the person appointed by resolution of the directors or other governing body of such corporation to act as its representative at the relevant general meeting of the Company or at any relevant general meeting of any class of members of the Company.

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(r) Rights of the minorities in relation to fraud or oppression

There are no provisions in the Articles relating to rights of minority shareholders in relation to fraud or oppression. However, certain remedies are available to shareholders of the Company under Cayman law, as summarized in paragraph 3(f) of this Appendix.

(s) Procedures on liquidation

A resolution that the Company be wound up by the court or be wound up voluntarily shall be a special resolution.

Subject to any special rights, privileges or restrictions as to the distribution of available surplus assets on liquidation for the time being attached to any class or classes of shares (i) if the Company shall be wound up and the assets available for distribution amongst the members of the Company shall be more than sufficient to repay the whole of the capital paid up at the commencement of the winding up, the excess shall be distributed *pari passu* amongst such members in proportion to the amount paid up on the shares held by them respectively and (ii) if the Company shall be wound up and the assets available for distribution amongst the members as such shall be insufficient to repay the whole of the paid-up capital, such assets shall be distributed so that, as nearly as may be, the losses shall be borne by the members in proportion to the capital paid up, or which ought to have been paid up, at the commencement of the winding up on the shares held by them respectively.

If the Company shall be wound up (whether the liquidation is voluntary or by the court) the liquidator may, with the authority of a special resolution and any other sanction required by the Companies Law divide among the members in specie or kind the whole or any part of the assets of the Company whether the assets shall consist of property of one kind or shall consist of properties of different kinds and the liquidator may, for such purpose, set such value as he deems fair upon any one or more class or classes of property to be divided as aforesaid and may determine how such division shall be carried out as between the members or different classes of members. The liquidator may, with the like authority, vest any part of the assets in trustees upon such trusts for the benefit of members as the liquidator, with the like authority, shall think fit, but so that no contributory shall be compelled to accept any shares or other property in respect of which there is a liability.

(t) Untraceable members

Pursuant to the Articles, the Company may sell any of the shares of a member who is untraceable if (i) all cheques or warrants in respect of dividends of the shares in question (being not less than three in total number) for any sum payable in cash to the holder of such shares have remained uncashed for a period of 12 years; (ii) upon the expiry of the 12 year period, the Company has not during that time received any indication of the existence of the member; and (iii) the Company has caused an advertisement to be published in accordance with the rules of the Designated Stock Exchange (as defined in the Articles) giving notice of its intention to sell such shares and a period of three (3) months, or such shorter period as may be permitted by the Designated Stock Exchange (as defined in the Articles), has elapsed since the date of such advertisement and the Designated Stock Exchange (as defined in the Articles) has been notified of such intention. The net proceeds of any such sale shall belong to the Company and upon receipt by the Company of such net proceeds, it shall become indebted to the former member of the Company for an amount equal to such net proceeds.

(u) Subscription rights reserve

The Articles provide that to the extent that it is not prohibited by and is in compliance with the Companies Law, if warrants to subscribe for shares have been issued by the Company and the Company does any act or engages in any transaction which would result in the subscription price of such warrants being reduced below the par value of a share, a subscription rights reserve shall be established and applied in paying up the difference between the subscription price and the par value of a share on any exercise of the warrants.

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3. CAYMAN ISLANDS COMPANY LAW

The Company is incorporated in the Cayman Islands subject to the Companies Law and, therefore, operates subject to Cayman law. Set out below is a summary of certain provisions of Cayman company law, although this does not purport to contain all applicable qualifications and exceptions or to be a complete review of all matters of Cayman company law and taxation, which may differ from equivalent provisions in jurisdictions with which interested parties may be more familiar:

(a) Operations

As an exempted company, the Company's operations must be conducted mainly outside the Cayman Islands. The Company is required to file an annual return each year with the Registrar of Companies of the Cayman Islands and pay a fee which is based on the amount of its authorized share capital.

(b) Share capital

The Companies Law provides that where a company issues shares at a premium, whether for cash or otherwise, a sum equal to the aggregate amount of the value of the premiums on those shares shall be transferred to an account, to be called the "share premium account". At the option of a company, these provisions may not apply to premiums on shares of that company allotted pursuant to any arrangement in consideration of the acquisition or cancellation of shares in any other company and issued at a premium. The Companies Law provides that the share premium account may be applied by the company subject to the provisions, if any, of its memorandum and articles of association in (a) paying distributions or dividends to members; (b) paying up unissued shares of the company to be issued to members as fully paid bonus shares; (c) the redemption and repurchase of shares (subject to the provisions of section 37 of the Companies Law); (d) writing-off the preliminary expenses of the company; and (e) writing-off the expenses of, or the commission paid or discount allowed on, any issue of shares or debentures of the company.

No distribution or dividend may be paid to members out of the share premium account unless immediately following the date on which the distribution or dividend is proposed to be paid, the company will be able to pay its debts as they fall due in the ordinary course business.

The Companies Law provides that, subject to confirmation by the Grand Court of the Cayman Islands (the "Court"), a company limited by shares or a company limited by guarantee and having a share capital may, if so authorized by its articles of association, by special resolution reduce its share capital in any way.

The Articles includes certain protections for holders of special classes of shares, requiring their consent to be obtained before their rights may be varied. The consent of the specified proportions of the holders of the issued shares of that class or the sanction of a resolution passed at a separate meeting of the holders of those shares is required.

(c) Financial assistance to purchase shares of a company or its holding company

Subject to all applicable laws, the Company may give financial assistance to Directors and employees of the Company, its subsidiaries, its holding company or any subsidiary of such holding company in order that they may buy Shares in the Company or shares in any subsidiary or holding company. Further, subject to all applicable laws, the Company may give financial assistance to a trustee for the acquisition of Shares in the Company or shares in any such subsidiary or holding company to be held for the benefit of employees of the Company, its subsidiaries, any holding company of the Company or any subsidiary of any such holding company (including salaried Directors).

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There is no statutory restriction in the Cayman Islands on the provision of financial assistance by a company to another person for the purchase of, or subscription for, its own or its holding company's shares. Accordingly, a company may provide financial assistance if the directors of the company consider, in discharging their duties of care and acting in good faith, for a proper purpose and in the interests of the company, that such assistance can properly be given. Such assistance should be on an arm's-length basis.

(d) Purchase of shares and warrants by a company and its subsidiaries

Subject to the provisions of the Companies Law, a company limited by shares or a company limited by guarantee and having a share capital may, if so authorized by its articles of association, issue shares which are to be redeemed or are liable to be redeemed at the option of the company or a shareholder and the Companies Law expressly provides that it shall be lawful for the rights attaching to any shares to be varied, subject to the provisions of the company's articles of association, so as to provide that such shares are to be or are liable to be so redeemed. In addition, such a company may, if authorized to do so by its articles of association, purchase its own shares, including any redeemable shares. However, if the articles of association do not authorize the manner and terms of purchase, a company cannot purchase any of its own shares unless the manner and terms of purchase have first been authorized by an ordinary resolution of the company. At no time may a company redeem or purchase its shares unless they are fully paid. A company may not redeem or purchase any of its shares if, as a result of the redemption or purchase, there would no longer be any issued shares of the company other than shares held as treasury shares. A payment out of capital by a company for the redemption or purchase of its own shares is not lawful unless immediately following the date on which the payment is proposed to be made, the company shall be able to pay its debts as they fall due in the ordinary course of business.

Shares purchased by a company shall be treated as cancelled unless, subject to the memorandum and articles of association of the company, the directors of the company resolve to hold such shares in the name of the company as treasury shares prior to the purchase. Where shares of a company are held as treasury shares, the company shall be entered in the register of members as holding those shares, however, notwithstanding the foregoing, the company shall not be treated as a member for any purpose and shall not exercise any right in respect of the treasury shares, and any purported exercise of such a right shall be void, and a treasury share shall not be voted, directly or indirectly, at any meeting of the company and shall not be counted in determining the total number of issued shares at any given time, whether for the purposes of the company's articles of association or the Companies Law. Further, no dividend may be declared or paid, and no other distribution (whether in cash or otherwise) of the company's assets (including any distribution of assets to members on a winding up) may be made to the company, in respect of a treasury share.

A company is not prohibited from purchasing and may purchase its own warrants subject to and in accordance with the terms and conditions of the relevant warrant instrument or certificate. There is no requirement under Cayman Islands law that a company's memorandum or articles of association contain a specific provision enabling such purchases and the directors of a company may rely upon the general power contained in its memorandum of association to buy and sell and deal in personal property of all kinds.

Under Cayman Islands law, a subsidiary may hold shares in its holding company and, in certain circumstances, may acquire such shares.

(e) Dividends and distributions

With the exception of section 34 of the Companies Law, there is no statutory provisions relating to the payment of dividends. Based upon English case law, which is regarded as persuasive in the

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Cayman Islands, dividends may be paid only out of profits. In addition, section 34 of the Companies Law permits, subject to a solvency test and the provisions, if any, of the company's memorandum and articles of association, the payment of dividends and distributions out of the share premium account (see paragraph 2(m) above for further details).

(f) Protection of minorities

The Cayman Islands courts ordinarily would be expected to follow English case law precedents which permit a minority shareholder to commence a representative action against or derivative actions in the name of the company to challenge (a) an act which is ultra vires the company or illegal, (b) an act which constitutes a fraud against the minority and the wrongdoers are themselves in control of the company, and (c) an irregularity in the passing of a resolution which requires a qualified (or special) majority.

In the case of a company (not being a bank) having a share capital divided into shares, the Court may, on the application of members holding not less than one fifth of the shares of the company in issue, appoint an inspector to examine into the affairs of the company and to report thereon in such manner as the Court shall direct.

Any shareholder of a company may petition the Court which may make a winding up order if the Court is of the opinion that it is just and equitable that the company should be wound up or, as an alternative to a winding up order, (a) an order regulating the conduct of the company's affairs in the future, (b) an order requiring the company to refrain from doing or continuing an act complained of by the shareholder petitioner or to do an act which the shareholder petitioner has complained it has omitted to do, (c) an order authorizing civil proceedings to be brought in the name and on behalf of the company by the shareholder petitioner on such terms as the Court may direct, or (d) an order providing for the purchase of the shares of any shareholders of the company by other shareholders or by the company itself and, in the case of a purchase by the company itself, a reduction of the company's capital accordingly.

Generally claims against a company by its shareholders must be based on the general laws of contract or tort applicable in the Cayman Islands or their individual rights as shareholders as established by the company's memorandum and articles of association.

(g) Management

The Companies Law contains no specific restrictions on the power of directors to dispose of assets of a company. However, as a matter of general law, every officer of a company, which includes a director, managing director and secretary, in exercising his powers and discharging his duties must do so honestly and in good faith with a view to the best interests of the company and exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances.

(h) Accounting and auditing requirements

A company shall cause proper books of account to be kept with respect to (i) all sums of money received and expended by the company and the matters in respect of which the receipt and expenditure takes place; (ii) all sales and purchases of goods by the company; and (iii) the assets and liabilities of the company.

Proper books of account shall not be deemed to be kept if there are not kept such books as are necessary to give a true and fair view of the state of the company's affairs and to explain its transactions.

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(i) Exchange control

There are no exchange control regulations or currency restrictions in the Cayman Islands.

(j) Taxation

Pursuant to section 6 of the Tax Concessions Law (1999 Revision) of the Cayman Islands, the Company has obtained an undertaking from the Governor-in-Cabinet:

- (1) that no law which is enacted in the Cayman Islands imposing any tax to be levied on profits, income, gains or appreciation shall apply to the Company or its operations; and
- (2) that the aforesaid tax or any tax in the nature of estate duty or inheritance tax shall not be payable on or in respect of the shares, debentures or other obligations of the Company.

The undertaking for the Company is for a period of twenty years from December 14, 2010.

The Cayman Islands currently levy no taxes on individuals or corporations based upon profits, income, gains or appreciations and there is no taxation in the nature of inheritance tax or estate duty. There are no other taxes likely to be material to the Company levied by the Government of the Cayman Islands save certain stamp duties which may be applicable, from time to time, on certain instruments executed in or brought within the jurisdiction of the Cayman Islands. The Cayman Islands are not party to any double tax treaties.

(k) Stamp duty on transfers

No stamp duty is payable in the Cayman Islands on transfers of shares of Cayman Islands companies except those which hold interests in land in the Cayman Islands.

(l) Loans to directors

There is no express provision in the Companies Law prohibiting the making of loans by a company to any of its directors.

(m) Inspection of corporate records

Members of the Company will have no general right under the Companies Law to inspect or obtain copies of the register of members or corporate records of the Company. They will, however, have such rights as may be set out in the Company's Articles.

An exempted company may maintain its principal register of members and any branch registers at such locations, whether within or without the Cayman Islands, as the directors may, from time to time, think fit. A branch register shall be kept in the same manner in which a principal register is by the Companies Law required or permitted to be kept. The company shall cause to be kept at the place where the company's principal register is kept a duplicate of any branch register duly entered up from time to time. There is no requirement under the Companies Law for an exempted company to make any returns of members to the Registrar of Companies of the Cayman Islands. The names and addresses of the members are, accordingly, not a matter of public record and are not available for public inspection.

(n) Winding up

A company may be wound up compulsorily by order of the Court voluntarily; or, under supervision of the Court. The Court has authority to order winding up in a number of specified circumstances including where it is, in the opinion of the Court, just and equitable to do so.

A company may be wound up voluntarily when the members so resolve in general meeting by special resolution, or, in the case of a limited duration company, when the period fixed for the duration

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of the company by its memorandum or articles expires, or the event occurs on the occurrence of which the memorandum or articles provides that the company is to be dissolved, or, the company does not commence business for a year from its incorporation (or suspends its business for a year), or, the company is unable to pay its debts. In the case of a voluntary winding up, such company is obliged to cease to carry on its business from the time of passing the resolution for voluntary winding up or upon the expiry of the period or the occurrence of the event referred to above.

For the purpose of conducting the proceedings in winding up a company and assisting the Court, there may be appointed one or more than one person to be called an official liquidator or official liquidators; and the Court may appoint to such office such qualified person or persons, either provisionally or otherwise, as it thinks fit, and if more persons than one are appointed to such office, the Court shall declare whether any act hereby required or authorized to be done by the official liquidator is to be done by all or any one or more of such persons. The Court may also determine whether any and what security is to be given by an official liquidator on his appointment; if no official liquidator is appointed, or during any vacancy in such office, all the property of the company shall be in the custody of the Court. A person shall be qualified to accept an appointment as an official liquidator if he is duly qualified in terms of the Insolvency Practitioners Regulations. A foreign practitioner may be appointed to act jointly with a qualified insolvency practitioner.

In the case of a members' voluntary winding up of a company, the company in general meeting must appoint one or more liquidators for the purpose of winding up the affairs of the company and distributing its assets. A declaration of solvency must be signed by all the directors of a company being voluntarily wound up within twenty-eight (28) days of the commencement of the liquidation, failing which, its liquidator must apply to Court for an order that the liquidation continue under the supervision of the Court.

Upon the appointment of a liquidator, the responsibility for the company's affairs rests entirely in his hands and no future executive action may be carried out without his approval. A liquidator's duties are to collect the assets of the company (including the amount (if any) due from the contributories), settle the list of creditors and, subject to the rights of preferred and secured creditors and to any subordination agreements or rights of set-off or netting of claims, discharge the company's liability to them (*pari passu* if insufficient assets exist to discharge the liabilities in full) and to settle the list of contributories (shareholders) and divide the surplus assets (if any) amongst them in accordance with the rights attaching to the shares.

As soon as the affairs of the company are fully wound up, the liquidator must make up an account of the winding up, showing how the winding up has been conducted and the property of the company has been disposed of, and thereupon call a general meeting of the company for the purposes of laying before it the account and giving an explanation thereof. At least twenty-one (21) days before the final meeting, the liquidator shall send a notice specifying the time, place and object of the meeting to each contributory in any manner authorized by the company's articles of association and published in the Gazette in the Cayman Islands.

(o) Reconstructions

There are statutory provisions which facilitate reconstructions and amalgamations approved by a majority in number representing seventy-five per cent. (75%) in value of shareholders or class of shareholders or creditors, as the case may be, as are present at a meeting called for such purpose and thereafter sanctioned by the Court. Whilst a dissenting shareholder would have the right to express to the Court his view that the transaction for which approval is sought would not provide the shareholders with a fair value for their shares, the Court is unlikely to disapprove the transaction on that ground alone in the absence of evidence of fraud or bad faith on behalf of management.

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(p) Compulsory acquisition

Where an offer is made by a company for the shares of another company and, within four (4) months of the offer, the holders of not less than ninety per cent. (90%) of the shares which are the subject of the offer accept, the offeror may at any time within two (2) months after the expiration of the said four (4) months, by notice in the prescribed manner require the dissenting shareholders to transfer their shares on the terms of the offer. A dissenting shareholder may apply to the Court within one (1) month of the notice objecting to the transfer. The burden is on the dissenting shareholder to show that the Court should exercise its discretion, which it will be unlikely to do unless there is evidence of fraud or bad faith or collusion as between the offeror and the holders of the shares who have accepted the offer as a means of unfairly forcing out minority shareholders.

(q) Indemnification

Cayman Islands law does not limit the extent to which a company's articles of association may provide for indemnification of officers and directors, except to the extent any such provision may be held by the court to be contrary to public policy (e.g. for purporting to provide indemnification against the consequences of committing a crime).

4. GENERAL

Conyers Dill & Pearman, the Company's special legal counsel on Cayman Islands law, have sent to the Company a letter of advice summarizing certain aspects of Cayman Islands company law. This letter, together with a copy of the Companies Law, is available for inspection as referred to in the paragraph headed "Documents Available for Inspection" in Appendix VII. Any person wishing to have a detailed summary of Cayman Islands company law or advice on the differences between it and the laws of any jurisdiction with which he is more familiar is recommended to seek independent legal advice.

A. FURTHER INFORMATION ABOUT OUR COMPANY AND OUR SUBSIDIARIES**1. Incorporation**

Our Company was incorporated in the Cayman Islands under the Companies Law as an exempted company with limited liability on November 30, 2010. We have established a place of business in Hong Kong at Room 1202B, 12/F, Empire Centre, 68 Mody Road, Kowloon, Hong Kong and was registered with the Registrar of Companies in Hong Kong as a non-Hong Kong company under Part XI of the Companies Ordinance on March 9, 2011. Mr. Sit Hon Wing, who resides at Flat F, 8/F, Tower M1 Yoho Midtown, 9 Yuen Long Street, N.T., Hong Kong, has been appointed as the authorized representative of our Company for the acceptance of service of process and notices on behalf of our Company in Hong Kong.

As our Company was incorporated in the Cayman Islands, it operates subject to the Companies Law and to its constitution comprising the Memorandum of Association and the Articles. A summary of certain provisions of its constitution and relevant aspects of the Companies Law is set out in Appendix V to this prospectus.

2. Change in share capital

Our authorized share capital as of the date of our incorporation was HK\$380,000 divided into 3,800,000 Shares of HK\$0.10 each. On November 30, 2010, one subscriber Share was transferred to Mr. Tsui.

On March 25, 2011, we allotted and issued 859,999 Shares and 140,000 Shares to Keen Vast and Mr. Tsui, respectively.

On May 31, 2011, Mr. Tsui transferred 60,000 Shares, 60,000 Shares and 20,000 Shares to Green Prosper, Yifeng Investments and Great Nation respectively.

Pursuant to the resolutions in writing of the shareholders of our Company passed on June 14, 2011, the authorized share capital of our Company was increased from HK\$380,000 to HK\$400,000,000 by the creation of an additional 3,996,200,000 Shares.

Immediately following completion of the Global Offering and the Capitalization Issue but not taking into account any Shares which may be allotted and issued pursuant to the exercise of the Over-allotment Option or any options which may be granted under the Share Option Scheme, the issued share capital of our Company will be HK\$116,400,000 divided into 1,164,000,000 Shares, all fully paid or credited as fully paid and 2,836,000,000 Shares will remain unissued.

Save for aforesaid and as mentioned in the paragraph headed “Resolutions in writing of the shareholders of our Company passed on June 14, 2011” below, there has been no alteration in the share capital of our Company since its incorporation.

3. Resolutions in writing of the shareholders of our Company passed on June 14, 2011

Pursuant to the written resolutions passed by the shareholders of our Company on June 14, 2011:

- (a) we conditionally approved and adopted the Memorandum of Association and the Articles of Association;
- (b) the authorized share capital of our Company was increased from HK\$380,000 to HK\$400,000,000 by the creation of an additional 3,996,200,000 Shares;

- (c) conditional on (i) the Listing Committee of the Stock Exchange granting the listing of, and permission to deal in, the Shares in issue, Shares to be issued pursuant to the Capitalization Issue and the Shares to be issued as mentioned in this prospectus (including any additional Shares which may fall to be issued pursuant to the exercise of the Over-allotment Option or any Shares which may be issued pursuant to the exercise of the options granted under the Share Option Scheme); (ii) the entering into of the agreement on the Offer Price between the Sole Global Coordinator and our Company on the Price Determination Date; and (iii) the obligations of the Underwriters under the Underwriting Agreements becoming unconditional and not being terminated in accordance with the terms therein or otherwise, in each case on or before such dates as may be specified in the Underwriting Agreements:
- (i) the Global Offering was approved and the Directors were authorized to allot and issue the new Shares pursuant to the Global Offering;
 - (ii) the Over-allotment Option was approved and the Directors were authorized to effect the same and to allot and issue the Over-allotment Shares upon the exercise of the Over-allotment Option;
 - (iii) the rules of the Share Option Scheme, the principal terms of which are set out in the sub-section headed “— Other Information — Share Option Scheme” in this Appendix, were approved and adopted and our Directors were authorized to grant options to subscribe for Shares thereunder and to allot, issue and deal with Shares pursuant to the exercise of options granted under the Share Option Scheme;
 - (iv) conditional on the share premium account of our Company being credited as a result of the issue of the Offer Shares by our Company pursuant to the Global Offering, our Directors were authorized to capitalize an amount of HK\$89,900,000 standing to the credit of the share premium account of our Company by applying such sum in paying up in full at par 899,000,000 Shares, such Shares to be allotted and issued to our shareholders as of the date of the passing of the resolution on a pro rata basis.
- (d) a general unconditional mandate was given to the Directors to allot, issue and deal with (including the power to make an offer or agreement, or grant securities which would or might require Shares to be allotted and issued), otherwise than pursuant to a rights issue or pursuant to any scrip dividend schemes or similar arrangements providing for the allotment and issue of Shares in lieu of the whole or part of a dividend on Shares in accordance with the Articles or pursuant to the grant of options under the Share Option Scheme or other similar arrangement or pursuant to a specific authority granted by the shareholders of our Company in general meeting, unissued Shares with a total nominal value not exceeding 20% of the aggregate nominal value of the share capital of our Company in issue immediately following completion of the Global Offering and Capitalization Issue (but taking no account of any Shares which may be issued and allotted pursuant to the exercise of the Over-allotment Option or Shares which may be issued pursuant to the exercise of the options granted under the Share Option Scheme), such mandate to remain in effect until the conclusion of the next annual general meeting of our Company, or the expiration of the period within which the next annual general meeting of our Company is required by the Articles or any applicable laws to be held, or until revoked or varied by an ordinary resolution of the shareholders in general meeting, whichever occurs first;
- (e) a general unconditional mandate was given to the Directors authorizing them to exercise all powers of our Company to repurchase on the Stock Exchange or on any other approved stock exchange on which the securities of our Company may be listed and which is recognized by the SFC and the Stock Exchange for this purpose, such number of Shares as will represent up to 10% of the aggregate nominal value of the share capital of our Company in issue immediately following completion of the Global Offering and the

Capitalization Issue (but taking no account of any Shares which may be issued and allotted pursuant to the exercise of the Over-allotment Option or Shares which may be issued pursuant to the exercise of the options granted under the Share Option Scheme), such mandate to remain in effect until the conclusion of the next annual general meeting of our Company, or the expiration of the period within which the next annual general meeting of our Company is required by the Articles or any applicable laws to be held, or until revoked or varied by an ordinary resolution of the shareholders in general meeting, whichever occurs first; and

- (f) the general unconditional mandate mentioned in paragraph (d) above was extended by the addition to the aggregate nominal value of the share capital of our Company which may be allotted or agreed conditionally or unconditionally to be allotted by the Directors pursuant to such general mandate of an amount representing the aggregate nominal value of the share capital of our Company repurchased by our Company pursuant to the mandate to repurchase Shares referred to in paragraph (e) above.

4. Corporate reorganization

The Companies comprising our Group underwent a Reorganization in preparation from the listing of our Shares on the Stock Exchange. For information relating to the Reorganization, please refer to the section “History and Reorganization” in this prospectus.

5. Changes in share capital of subsidiaries

Certain information on our subsidiaries is contained in the Accountants’ Report in Appendix I to this prospectus. The following sets out the changes to the share capital made by the subsidiaries of our Company during the two years preceding the date of this prospectus:

<u>Name of subsidiary</u>	<u>Date of change</u>	<u>Capital before increase/decrease</u>	<u>Capital after increase/decrease</u>
Guangzhou Haitao	December 4, 2009	RMB10,000,000	RMB30,000,000

Save as set out above, there has been no alteration in the share capital of any of our subsidiaries within the two years immediately preceding the date of this prospectus.

6. Repurchase of our Shares

(a) Provisions of the Listing Rules

The Listing Rules permit companies whose primary listing is on the Main Board of Stock Exchange to repurchase their securities on the Stock Exchange subject to certain restrictions, the most important of which are summarized below:

(i) Shareholders’ approval

All proposed repurchases of securities on the Stock Exchange by a company with a primary listing on the Stock Exchange must be approved in advance by an ordinary resolution of its shareholders, either by way of general mandate or by specific approval of a particular transaction.

(Note: Pursuant to resolution passed by the shareholders of our Company on June 14, 2011, a general unconditional mandate (the “**Buyback Mandate**”) was granted to the Directors authorizing the repurchase by our Company on the Stock Exchange, or on any other stock exchange on which the securities of our Company may be listed and which is recognized by the SFC and the Stock Exchange for this purpose, of Shares with an aggregate nominal value not exceeding 10% of the aggregate nominal amount of the share capital of our Company in issue and to be issued as mentioned herein, at any time until the conclusion of the next annual general meeting of our Company, the expiration of the period within which the next annual general meeting of our Company is required by an applicable law or the Articles to be held or when such mandate is revoked or varied by an ordinary resolution of the shareholders of our Company in general meeting, whichever is the earliest.)

(ii) Source of funds

Repurchases must be funded out of funds legally available for the purpose in accordance with the Articles and the laws of the Cayman Islands. A listed company may not repurchase its own securities on the Stock Exchange for a consideration other than cash or for settlement otherwise than in accordance with the trading rules of the Stock Exchange from time to time.

(b) Reasons for repurchases

Our Directors believe that it is in the best interests of our Company and its shareholders for our Directors to have a general authority from shareholders to enable our Company to repurchase Shares in the market. Repurchases of Shares will only be made when our Directors believe that such repurchases will benefit our Company and its members. Such repurchases may, depending on market conditions and funding arrangements at the time, lead to an enhancement of the net asset value of our Company and its assets and/or its earnings per Share.

(c) Funding of repurchases

In repurchasing securities, our Company may only apply funds legally available for such purpose in accordance with the Articles and the applicable laws of the Cayman Islands.

It is presently proposed that any repurchase of Shares will be made out of the profits of our Company, the share premium account of our Company or the proceeds of a fresh issue of shares made for the purpose of the purchase or, subject to the Companies Law, out of capital and, in the case of any premium payable on the purchase, out of either or both of the profits of our Company or the share premium account of our Company or, subject to the Companies Law, out of capital.

Our Directors do not propose to exercise the Buyback Mandate to such an extent as would, in the circumstances, have a material adverse effect on the working capital requirements of our Company or its gearing levels which, in the opinion of our Directors, are from time to time appropriate for our Company.

(d) Share capital

Exercise in full of the Buyback Mandate, on the basis of 1,164,000,000 Shares in issue immediately after the listing of the Shares (but taking no account of Shares which may be allotted and issued pursuant to the exercise of the Over-allotment Option or Shares which may be issued pursuant to the exercise of the options granted under the Share Option Scheme), could accordingly result in up to 116,400,000 Shares being repurchased by our Company during the period until:

- (i) the conclusion of the next annual general meeting of our Company;
- (ii) the expiration of the period within which the next annual general meeting of our Company is required by any applicable law or the Articles to be held; or
- (iii) the date on which the Buyback Mandate is revoked or varied by an ordinary resolution of the shareholders in general meeting, whichever occurs first.

(e) *General*

None of our Directors or, to the best of their knowledge, having made all reasonable enquiries, any of their respective associates (as defined in the Listing Rules), has any present intention to sell any Shares to us or our subsidiaries.

Our Directors have undertaken to the Stock Exchange that, so far as the same may be applicable, they will exercise the Buyback Mandate in accordance with the Listing Rules and the applicable laws of the Cayman Islands.

No connected person (as defined in the Listing Rules) has notified us that he/she or it has a present intention to sell Shares to us, or has undertaken not to do so, if the Buyback Mandate is exercised.

If as a result of a securities repurchase pursuant to the Buyback Mandate, a shareholder's proportionate interest in the voting rights of our Company increases, such increase will be treated as an acquisition for the purpose of the Hong Kong Code on Takeovers and Mergers (the "Code"). Accordingly, a shareholder, or a group of shareholders acting in concert, depending on the level of increase of the shareholders' interest, could obtain or consolidate control of our Company and become obliged to make a mandatory offer in accordance with Rule 26 of the Code as a result of any such increase. Our Directors are not aware of any other consequences which may arise under the Code if the Buyback Mandate is exercised.

If the Buyback Mandate is fully exercised immediately following completion of the Global Offering and the Capitalization Issue but taking no account of any Shares which may be allotted and issued upon the exercise of the Over-allotment Option or pursuant to the exercise of any options which may be granted under the Share Option Scheme, the total number of Shares which will be repurchased pursuant to the Buyback Mandate shall be 116,400,000 Shares (being 10% of the issued share capital of our Company based on the aforesaid assumptions). The percentage shareholding of our Controlling Shareholders will be increased to approximately 73.9% of the issued share capital of our Company immediately following the full exercise of the Buyback Mandate, which will not trigger an obligation by the Controlling Shareholders to make a mandatory offer in accordance with Rule 26 of the Code.

Any repurchase of Shares which results in the number of Shares held by the public being reduced to less than the prescribed percentage of the Shares then in issue could only be implemented with the approval of the Stock Exchange to waive the Listing Rules requirements regarding the public float under Rule 8.08 of the Listing Rules. Our Directors have no present intention to exercise the Buyback Mandate to such an extent that, in the circumstances, there is insufficient public float as prescribed under the Listing Rules.

B. INFORMATION ABOUT OUR BUSINESS

1. Summary of material contracts

The following contracts (not being contracts in the ordinary course of business) have been entered into by us or any of our subsidiaries within the two years preceding the date of this prospectus and are or may be material:

- (a) the cooperation agreement dated January 21, 2010 between Shenzhen Jialinyuan Water Treatment Technology Limited (深圳市佳霖源水務科技有限公司, "Shenzhen Jialinyuan"), Mr. Gong Shu Ngai (龔樹毅, "Mr. Gong") and Guangzhou Xintao pursuant to which Guangzhou Xintao acquired 10% of the equity interest in Huaihua Tianyuan from Shenzhen Jialinyuan for RMB1 million and 50% of the equity interest in Huaihua Tianyuan from Mr. Gong for RMB5 million;

- (b) the share transfer agreement dated June 3, 2010 between Guangzhou To Kee, Mr. Xu Zi Tao (徐子滔) and Guangzhou Xintao pursuant to which Guangzhou Xintao acquired 60% of the equity interest in Guangzhou Xinzhou from Guangzhou To Kee for RMB6 million and 40% of the equity interest in Guangzhou Xinzhou from Mr. Xu Zi Tao for RMB4 million;
- (c) the share transfer agreement dated July 28, 2010 between Guangzhou To Kee and Guangzhou Xintao pursuant to which Guangzhou To Kee transferred 48% of the equity interest in Guangzhou Haitao to Guangzhou Xintao for a consideration of RMB14.4 million thereby increasing the equity interest of Guangzhou Xintao in Guangzhou Haitao to 99%;
- (d) the supplemental agreement dated August 12, 2010 between Guangzhou Xintao and Shenzhen Jialinyuan to the agreement set out in paragraph (a) above where as of August 10, 2010, Shenzhen Jialinyuan and Guangzhou Xintao have respectively contributed RMB8.5 million and RMB18 million to the capital of Huaihua Tianyuan and pursuant to the terms of the supplemental agreement, Shenzhen Jialinyuan transferred 15% of the equity interest in Huaihua Tianyuan to Guangzhou Xintao thereby increasing the equity interest of Guangzhou Xintao in Huaihua Tianyuan to 75%, and the agreement between the parties that further investment in the project company after the transfer of the 15% equity interest will be made by Guangzhou Xintao, subject to the total investment of Guangzhou Xintao in the project company not exceeding RMB28 million;
- (e) the agreement dated April 15, 2011 between the Company and Zhongshan University Environmental Science and Engineering College (中山大學環境科學與工程學院) pursuant to which the Company agreed to donate a sum of RMB3 million for the setting up of the CT Environmental Scholarship (中滔環保獎學金);
- (f) the Deed of Non-competition dated June 14, 2011 given by our Controlling Shareholders in favour of our Company as detailed in the paragraph headed “Relationship with Controlling Shareholders — Non-competition Undertaking” in this prospectus;
- (g) the Deed of Indemnity dated June 14, 2011 given by our Controlling Shareholders in favour of our Company (for itself and as trustee of each of its present subsidiaries) in respect of, amongst others, taxation, property, licenses and lending transactions referred to in the paragraph headed “D. Other Information — Tax and other indemnities” in this Appendix; and
- (h) the Hong Kong Underwriting Agreement.

2. Intellectual property rights of the Group

(a) Patents

As of the Latest Practicable Date, our Group owned the following patents:

Patent	Patent No.	Type	Place of Registration	Expiration Date
太陽能中水雙 熱源熱泵污 泥幹化系統	ZL 201020144472.1	Utility	PRC	March 25, 2020



As of the Latest Practicable Date, our Group has applied for registration of the following patents:

<u>Patent</u>	<u>Application Number</u>	<u>Type</u>	<u>Name of Applicant</u>	<u>Place of Application</u>	<u>Date of Application</u>
太陽能中水雙熱源熱泵污泥幹化系統	201010135156.2	Invention	Gan Yongxiong (甘永雄) ⁽¹⁾	PRC	March 26, 2010
一種紡織印染廢水格渣設備	201120022171.6	Utility	Guangzhou Xintao	PRC	January 24, 2011
一種太陽能工業廢熱污泥幹化系統	201120022289.9	Utility	Guangzhou Xintao	PRC	January 24, 2011
一種厭氧反應處理設備	201120022373.0	Utility	Guangzhou Xintao	PRC	January 24, 2011

(1) Mr. Gan Yongxiong was an employee of the Company at the date when the application was made.

(b) Trademarks

As of the Latest Practicable Date, our Group had applied for the registration of the following trademarks:

<u>Trademark</u>	<u>Application Number</u>	<u>Class</u>	<u>Name of Applicant</u>	<u>Place of Application</u>	<u>Date of Application</u>
(A) 	301796491	35, 37, 40, 42	Company	Hong Kong	December 23, 2010
(B) 					

(c) Domain names

As of the Latest Practicable Date, our Group was the registered proprietor of the following domain name:

<u>Domain Name</u>	<u>Name of Proprietor</u>	<u>Expiration Date</u>
www.chongto.com	Guangzhou Xintao	December 9, 2020

C. FURTHER INFORMATION ABOUT DIRECTORS, AND SUBSTANTIAL SHAREHOLDERS

1. Directors

(a) *Disclosure of interest — interests and short positions of the Directors and the chief executives of our Company in the Shares, underlying Shares and debentures of our Company and its associated corporations*

Immediately following completion of the Global Offering and the Capitalization Issue and assuming that the Over-allotment Option is not exercised, the interest or short position of Directors or chief executives of our Company in the Shares, underlying Shares and debentures of our Company or its associated corporations (within the meaning of Part XV of the SFO) which will be required to be notified to our Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interest or short positions which they were taken or deemed to have under such provisions of the SFO) or which will be required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which will be required, pursuant to Model Code for Securities Transactions by Directors of Listed Companies, once the Shares are listed are as follows.

(i) *Interest in our Company*

Name of Director	Nature of Interest	Number of Securities	Approximate percentage of shareholding
Mr. Tsui ⁽¹⁾	Interest of a controlled corporation	774,000,000	66.49%
Mr. Lu Yili ⁽²⁾	Interest of a controlled corporation	18,000,000	1.55%

Notes:

- (1) Mr. Tsui is interested in 98% of the issued share capital of Keen Vast, which is in turn interested in 66.49% of the issued share capital of the Company.
- (2) Mr. Lu Yili owns the entire issued share capital of Great Nation, which is in turn interested in 1.55% of the issued share capital of the Company.

(ii) *Interest in associated corporations*

Name of Director	Name of associated corporation	Number of shares	Percentage Shareholding
Mr. Tsui	Keen Vast	98	98%
Mr. Xu Shu Biao	Keen Vast	1	1%
Mr. Lu Yili	Great Nation	1	100%

(b) *Particulars of service contracts*

Each of the executive Directors has entered into a service contract with our Company for a term of three years commencing from the Listing Date, which may be terminated by not less than three months' notice in writing served by either party on the other.

(c) Directors' remuneration

Each of the executive Directors is entitled to a director's fee. Each executive Director shall be paid a remuneration on the basis of twelve months in a year. The current annual director's fees of the executive Directors for the year ended December 31, 2011 (excluding any discretionary bonuses which may be paid to our executive Directors) are as follows:

Name	Annual Director's Fee (HK\$)
Mr. Tsui	412,000
Mr. Lu Yili	—
Mr. Xu Shubiao	137,000
Mr. Xu Juwen	—
Mr. Xu Zitao	71,000

The independent non-executive Directors have been appointed for a term of one year. We intend to pay a director's fee of between HK\$100,000 and HK\$250,000 per annum to our independent non-executive Directors.

Under the arrangement currently in force, the aggregate amount of emoluments payable by our Group to the Directors for the year ending December 31, 2011 will be approximately HK\$1,245,000.

Further details of the terms of the above service contracts are set out in the paragraph headed "Particulars of service contracts" in the subsection headed "Directors" in this Appendix.

2. Substantial Shareholders

So far as the Directors are aware, immediately following the completion of the Global Offering and the Capitalization Issue (but without taking into account the Shares to be issued pursuant to the exercise of the Over-allotment Option or any Shares that may be issued pursuant to the exercise of options which may be granted under the Share Option Scheme), the following persons (other than the Directors and chief executives of our Company) will have or be deemed or taken to have an interest and/or short position in the Shares or the underlying Shares which would fall to be disclosed under the provisions of Division 2 and 3 of Part XV of the SFO:

Name	Capacity	Number of Shares	Percentage of shareholding
Keen Vast	Beneficial owner	774,000,000	66.49%

Note: Keen Vast is 98% owned by Mr. Tsui.

3. Agency fees or commissions received

Save as disclosed in this prospectus, no commissions, discounts, brokerages or other special terms were granted within the two years preceding the date of this prospectus in connection with the issue or sale of any capital of any member of our Group.

4. Disclaimers

Save as disclosed herein:

- (a) none of our Directors or chief executives of our Company has any interest or short position in the Shares, underlying Shares or debentures of our Company or any of its associated corporation (within the meaning of the SFO) which will have to be notified to our Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO or which will be required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which will be required to be notified to our Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies once the Shares are listed;
- (b) none of our Directors or experts referred to under the heading “Consents of experts” in this Appendix has any direct or indirect interest in the promotion of our Company, or in any assets which have within the two years immediately preceding the date of this prospectus been acquired or disposed of by or leased to any member of our Group, or are proposed to be acquired or disposed of by or leased to any member of our Group;
- (c) none of our Directors is materially interested in any contract or arrangement subsisting at the date of this prospectus which is significant in relation to the business of our Group taken as a whole;
- (d) none of our Directors has any existing or proposed service contracts with any member of our Group (excluding contracts expiring or determinable by the employer within one year without payment of compensation (other than statutory compensation));
- (e) taking no account of Shares which may be taken up under the Global Offering, none of our Directors knows of any person (not being a Director or chief executive of our Company) who will, immediately following completion of the Global Offering, have an interest or short position in the Shares or underlying Shares of our Company which would fall to be disclosed to our Company under the provisions of Divisions 2 and 3 of Part XV of SFO or be interested, directly or indirectly, in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of our Group;
- (f) none of the experts referred to under the heading “Consents of experts” in this Appendix has any shareholding in any member of our Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of our Group; and
- (g) so far as is known to our Directors, none of our Directors, their respective associates (as defined under the Listing Rules) or shareholders of our Company who are interested in more than 5% of the issued share capital of our Company has any interests in the five largest customers or the five largest suppliers of our Group.

D. OTHER INFORMATION

1. Share Option Scheme

The following is a summary of the principal terms of the Share Option Scheme conditionally adopted by the written resolutions of our Shareholders passed on June 14, 2011.

(a) Purpose

The Share Option Scheme is a share incentive scheme prepared in accordance with Chapter 17 of the Listing Rules and is established to recognize and acknowledge the contributions the Eligible Participants (as defined in paragraph (b) below) had or may have made to the Group. The Share Option

Scheme will provide the Eligible Participants an opportunity to have a personal stake in our Company with the view to achieving the following objectives:

- (i) motivate the Eligible Participants to optimize their performance efficiency for the benefit of the Group; and
- (ii) attract and retain or otherwise maintain on-going business relationship with the Eligible Participants whose contributions are or will be beneficial to the long-term growth of the Group.

(b) Who may join

The Board may, at its discretion, offer to grant an option to the following persons (collectively the “Eligible Participants”) to subscribe for such number of new Shares as the Board may determine at an exercise price determined in accordance with paragraph (f) below to:

- (i) any full-time or part-time employees, executives or officers of our Company or any of its subsidiaries;
- (ii) any directors (including independent non-executive directors) of our Company or any of its subsidiaries; and
- (iii) any advisors, consultants, suppliers, customers, agents and such other persons who in the sole opinion of the Board will contribute or have contributed to our Company or any of its subsidiaries.

Upon acceptance of the option, the grantee shall pay HK\$1.00 to our Company by way of consideration for the grant. Any offer to grant an option to subscribe for Shares may be accepted in respect of less than the number of Shares for which it is offered provided that it is accepted in respect of a board lot of dealing in Shares on the Stock Exchange or an integral multiple thereof and such number is clearly stated in the duplicate offer document constituting the acceptance of the option. To the extent that the offer to grant an option is not accepted by any prescribed acceptance date, it shall be deemed to have been irrevocably declined.

(c) Acceptance of an offer of options

An option shall be deemed to have been granted and accepted by the grantee and to have taken effect when the duplicate offer document constituting acceptances of the options duly signed by the grantee, together with a remittance in favor of our Company of HK\$1.00 by way of consideration for the grant thereof, is received by our Company on or before the relevant acceptance date. Such payment shall in no circumstances be refundable. Any offer to grant an option to subscribe for Shares may be accepted in respect of less than the number of Shares for which it is offered provided that it is accepted in respect of a board lot for dealing in Shares on the Stock Exchange or an integral multiple thereof and such number is clearly stated in the duplicate offer document constituting acceptance of the option. To the extent that the offer to grant an option is not accepted by any prescribed acceptance date, it shall be deemed to have been irrevocably declined.

Subject to paragraphs (l), (m), (n), (o) and (p), an option shall be exercised in whole or in part and, other than where it is exercised to the full extent outstanding, shall be exercised in integral multiples of such number of Shares as shall represent one board lot for dealing in Shares on the Stock Exchange for the time being, by the grantee by giving notice in writing to our Company stating that the option is thereby exercised and the number of Shares in respect of which it is exercised. Each such notice must be accompanied by a remittance for the full amount of the exercise price for the Shares in respect of which the notice is given. Within 21 days after receipt of the notice and the remittance

and, where appropriate, receipt of the certificate by the auditors to our Company or the approved independent financial advisor as the case may be pursuant to paragraph (r), our Company shall allot and issue the relevant number of Shares to the grantee credited as fully paid and issue to the grantee certificates in respect of the Shares so allotted.

The exercise of any option shall be subject to the Shareholders in a general meeting approving any necessary increase in the authorized share capital of our Company.

(d) Maximum number of Shares

The maximum number of Shares in respect of which options may be granted under the Share Option Scheme and under any other share option schemes of our Company must not in aggregate exceed 10% of the total number of Shares in issue as at the Listing Date, excluding for this purpose Shares which would have been issuable pursuant to options which have lapsed in accordance with the terms of the Share Option Scheme (or any other share option schemes of our Company). Subject to the issue of a circular by our Company and the approval of the shareholders in general meeting and/or such other requirements prescribed under the Listing Rules from time to time, the Board may:

- (i) renew this limit at any time to 10% of the Shares in issue as of the date of the approval by the shareholders in general meeting; and/or
- (ii) grant options beyond the 10% limit to Eligible Participants specifically identified by the Board. The circular issued by our Company to the shareholders shall contain a generic description of the specified Eligible Participants who may be granted such options, the number and terms of the options to be granted, the purpose of granting options to the specified Eligible Participants with an explanation as to how the options serve such purpose, the information required under Rule 17.02(2)(d) and the disclaimer required under Rule 17.02(4) of the Listing Rules.

Notwithstanding the foregoing and subject to paragraph (r) below, the maximum number of Shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other share option schemes of our Company at any time shall not exceed 30% of the Shares in issue from time to time. No options shall be granted under any schemes of our Company (including the Share Option Scheme) if this will result in the 30% limit being exceeded. The maximum number of Shares in respect of which options may be granted shall be adjusted, in such manner as the auditors of our Company or an approved independent financial advisor shall certify to be appropriate, fair and reasonable in the event of any alteration in the capital structure of our Company in accordance with paragraph (r) below whether by way of consolidation, capitalization issue, rights issue, sub-division or reduction of the share capital of our Company but in no event shall exceed the limit prescribed in this paragraph.

(e) Maximum number of options to any one individual

The total number of Shares issued and which may fall to be issued upon exercise of the options granted under the Share Option Scheme and any other share option schemes of our Company (including both exercised and outstanding options) to each Eligible Participant in any 12-month period up to the date of grant shall not exceed 1% of the Shares in issue as of the date of grant. Any further grant of options in excess of this 1% limit shall be subject to:

- (i) the issue of a circular by our Company containing the identity of the Eligible Participant, the numbers of and terms of the options to be granted (and options previously granted to such participant) the information as required under Rules 17.02(2)(d) and the disclaimer required under 17.02(4) of the Listing Rules; and
- (ii) the approval of the shareholders in general meeting and/or other requirements prescribed under the Listing Rules from time to time with such Eligible Participant and his associates (as defined in the Listing Rules) abstaining from voting. The numbers and terms (including

the exercise price) of options to be granted to such participant must be fixed before the shareholders' approval and the date of the Board meeting at which the Board proposes to grant the options to such Eligible Participant shall be taken as the date of grant for the purpose of calculating the subscription price of the Shares. The Board shall forward to such Eligible Participant an offer document in such form as the Board may from time to time determine (or, alternatively, documents accompanying the offer document which state), among others:

- (aa) the Eligible Participant's name, address and occupation;
- (bb) the date on which an option is offered to an Eligible Participant which must be a date on which the Stock Exchange is open for the business of dealing in securities;
- (cc) the date upon which an offer for an option must be accepted;
- (dd) the date upon which an option is deemed to be granted and accepted in accordance with paragraph (c);
- (ee) the number of Shares in respect of which the option is offered;
- (ff) the subscription price and the manner of payment of such price for the Shares on and in consequence of the exercise of the option;
- (gg) the date of the notice given by the grantee in respect of the exercise of the option; and
- (hh) the method of acceptance of the option which shall, unless the Board otherwise determines, be as set out in paragraph (c).

(f) *Price of Shares*

Subject to any adjustments made as described in paragraph (r) below, the subscription price of a Share in respect of any particular option granted under the Share Option Scheme shall be such price as the Board in its absolute discretion shall determine, save that such price must be at least the higher of:

- (i) the official closing price of the Shares as stated in the Stock Exchange's daily quotation sheets on the date of grant, which must be a day on which the Stock Exchange is open for the business of dealing in securities;
- (ii) the average of the official closing prices of the Shares as stated in the Stock Exchange's daily quotation sheets for the five business days immediately preceding the date of grant; and
- (iii) the nominal value of a Share.

(g) *Granting options to connected persons*

Any grant of options to a director, chief executive or substantial shareholder (as defined in the Listing Rules) of our Company or any of their respective associates (as defined in the Listing Rules) is required to be approved by the independent non-executive Directors (excluding any independent non-executive Director who is the grantee of the options). If the Board proposes to grant options to a substantial shareholder or any independent non-executive Director or their respective associates (as defined in the Listing Rules) which will result in the number of Shares issued and to be issued upon exercise of options granted and to be granted (including options exercised, canceled and outstanding) to such person in the 12-month period up to and including the date of such grant:

- (i) representing in aggregate over 0.1% or such other percentage as may be from time to time provided under the Listing Rules of the Shares in issue; and

- (ii) having an aggregate value in excess of HK\$5 million or such other sum as may be from time to time provided under the Listing Rules, based on the official closing price of the Shares at the date of each grant,

such further grant of options will be subject to the issue of a circular by our Company and the approval of the shareholders in general meeting on a poll at which all connected persons (as defined in the Listing Rules) of our Company shall abstain from voting in favor, and/or such other requirements prescribed under the Listing Rules from time to time. Any vote taken at the meeting to approve the grant of such options shall be taken as a poll.

The circular to be issued by our Company to the shareholders pursuant to the above paragraph shall contain the following information:

- (i) the details of the number and terms (including the exercise price) of the options to be granted to each selected Eligible Participant which must be fixed before the shareholders' meeting and the date of Board meeting for proposing such further grant shall be taken as the date of grant for the purpose of calculating the exercise price of such options;
- (ii) a recommendation from the independent non-executive Directors (excluding any independent non-executive Director who is the grantee of the options) to the independent shareholders as to voting;
- (iii) the information required under Rule 17.02(2)(c) and (d) and the disclaimer required under Rule 17.02(4) of the Listing Rules; and
- (iv) the information required under Rule 2.17 of the Listing Rules.

(h) Restrictions on the times of grant of options

A grant of options may not be made after a price sensitive event has occurred or a price sensitive matter has been the subject of a decision until such price sensitive information has been published pursuant to the requirements of the Listing Rules. In particular, no options may be granted during the period commencing one month immediately preceding the earlier of:

- (i) the date of the Board meeting (as such date to first notified to the Stock Exchange in accordance with the Listing Rules) for the approval of our Company's annual results half-year, quarterly or other interim period (whether or not required under the Listing Rules); and
- (ii) the deadline for our Company to publish an announcement of its annual results or half-year, or quarterly or other interim period (whether or not required under the Listing Rules)

and ending on the date of actual publication of the results announcement, and where an option is granted to a Director:

- (iii) no options shall be granted during the period of 60 days immediately preceding the publication date of the annual results or, if shorter, the period from the end of the relevant financial year up to the publication date of the results; and
- (iv) during the period of 30 days immediately preceding the publication date of the quarterly results (if any) and half-year results or, if shorter, the period from the end of the relevant quarterly or half-year period up to the publication date of the results.

(i) Rights are personal to grantee

An option is personal to the grantee and may be exercised or treated as exercised, as the case may be, in whole or in part. No grantee shall in any way sell, transfer, charge, mortgage, encumber or

create any interest (legal or beneficial) in favor of any third party over or in relation to any option or attempt so to do (save that the grantee may nominate a nominee in whose name the Shares issued pursuant to the Share Option Scheme may be registered). Any breach of the foregoing shall entitle our Company to cancel any outstanding options or any part thereof granted to such grantee.

(j) Time of exercise of option and duration of the Share Option Scheme

An option may be exercised in accordance with the terms of the Share Option Scheme at any time after the date upon which the option is deemed to be granted and accepted and prior to the expiry of 10 years from that date. The period during which an option may be exercised will be determined by the Board in its absolute discretion, save that no option may be exercised more than 10 years after it has been granted. No option may be granted more than 10 years after the date of approval of the Share Option Scheme. Subject to earlier termination by our Company in general meeting or by the Board, the Share Option Scheme shall be valid and effective for a period of 10 years from the date of its adoption.

(k) Performance target

A grantee may be required to achieve any performance targets as the Board may then specify in the grant before any options granted under the Share Option Scheme can be exercised.

(l) Rights on ceasing employment or death

If the grantee of an option ceases to be an employee of our Company or any of its subsidiaries

- (i) by any reason other than death or termination of his employment on the grounds specified in paragraph (m) below, the grantee may exercise the option up to the entitlement of the grantee as of the date of cessation (to the extent not already exercised) within a period of one month from such cessation; or
- (ii) by reason of death, his personal representative(s) may exercise the option within a period of 12 months from such cessation, which date shall be the last actual working day with our Company or the relevant subsidiary whether salary is paid in lieu of notice or not, failing which it will lapse.

(m) Rights on dismissal

If the grantee of an option ceases to be an employee of our Company or any of its subsidiaries on the grounds that he has been guilty of serious misconduct, or in relation to an employee of the Group (if so determined by the Board) on any other ground on which an employee would be entitled to terminate his employment at common law or pursuant to any applicable laws or under the grantee's service contract with the Group, or has been convicted of any criminal offense involving his integrity or honesty, his option will lapse and not be exercisable after the date of termination of his employment.

(n) Rights on takeover

If a general offer is made to all the shareholders (or all such shareholders other than the offeror and/or any person controlled by the offeror and/or any person acting in concert with the offeror (as defined in the Takeovers Codes)) and such offer becomes or is declared unconditional during the option period of the relevant option, the grantee of an option shall be entitled to exercise the option in full (to the extent not already exercised) at any time within 14 days after the date on which the offer becomes or is declared unconditional.

(o) Rights on winding-up

In the event a notice is given by our Company to its members to convene a general meeting for the purposes of considering, and if thought fit, approving a resolution to voluntarily wind-up our Company, our Company shall forthwith give notice thereof to all grantees and thereupon, each grantee (or his legal personal representative(s)) shall be entitled to exercise all or any of his options (to the extent not already exercised) at any time not later than two business days prior to the proposed general meeting of our Company referred to above by giving notice in writing to our Company, accompanied by a remittance for the full amount of the aggregate subscription price for the Shares in respect of which the notice is given, whereupon our Company shall as soon as possible and, in any event, no later than the business day immediately prior to the date of the proposed general meeting, allot the relevant Shares to the grantee credited as fully paid and register the grantee as holder thereof.

(p) Rights on compromise or arrangement between our Company and its members or creditors

If a compromise or arrangement between our Company and its members or creditors is proposed for the purposes of a scheme for the reconstruction of our Company or its amalgamation with any other companies pursuant to the laws of jurisdictions in which our Company was incorporated, our Company shall give notice to all the grantees of the options on the same day as it gives notice of the meeting to its members or creditors summoning the meeting to consider such a scheme or arrangement and any grantee may by notice in writing to our Company accompanied by a remittance for the full amount of the aggregate subscription price for the Shares in respect of which the notice is given (such notice to be received by our Company not later than two business days prior to the proposed meeting), exercise the option to its full extent or to the extent specified in the notice and our Company shall as soon as possible and in any event no later than the business day immediately prior to the date of the proposed meeting, allot and issue such number of Shares to the grantee which falls to be issued on such exercise of the option credited as fully paid and register the grantee as holder thereof.

With effect from the date of such meeting, the rights of all grantees to exercise their respective options shall forthwith be suspended. Upon such compromise or arrangement becoming effective, all options shall, to the extent that they have not been exercised, lapsed or determined. If for any reason such compromise or arrangement does not become effective and is terminated or lapses, the rights of grantees to exercise their respective options shall with effect from such termination be restored in full but only upon the extent not already exercised and shall become exercisable.

(q) Ranking of Shares

The Shares to be allotted upon the exercise of an option will not carry voting rights until completion of the registration of the grantee (or any other person) as the holder thereof. Subject to the aforesaid, Shares allotted and issued on the exercise of options will rank *pari passu* in all respects and shall have the same voting, dividend, transfer and other rights, including those arising on liquidation as attached to the other fully-paid Shares in issue on the date of exercise.

(r) Effect of alterations to capital

In the event of any alteration in the capital structure of our Company whilst any option may become or remains exercisable, whether by way of capitalization issue, rights issue, open offer, consolidation, sub-division or reduction of share capital of our Company, or otherwise howsoever, such corresponding alterations (if any) shall be made in the number or nominal amount of Shares subject to any options so far as unexercised and/or the subscription price per Share of each outstanding option as the auditors of our Company or an independent financial advisor shall certify in writing to the Board to be in their/his opinion fair and reasonable in compliance with Rule 17.03(13) of the Listing Rules and the note thereto and the supplementary guidance issued by the Stock Exchange on September 5, 2005 and any future guidance and interpretation of the Listing Rules issued by the Stock

Exchange from time to time and the note thereto. The capacity of the auditors of our Company or the approval independent financial advisor, as the case may be, in this paragraph is that of experts and not arbitrations and their certificate shall, in absence of manifest error, be final and conclusive and binding on the Company and the grantees.

Any such alterations will be made on the basis that a grantee shall have the same proportion of the issued share capital of our Company for which any grantee of an option is entitled to subscribe pursuant to the options held by him before such alteration and the aggregate subscription price payable on full exercise of any option is to remain as nearly as possible the same (and in any event not greater than) as it was before such event. No such alteration will be made the effect of which would be to enable a Share to be issued at less than its nominal value. The issue of securities as consideration in a transaction is not to be regarded as a circumstance requiring any such alterations.

(s) Expiration of option

An option shall lapse automatically and not be exercisable (to the extent not already exercised) on the earliest of:

- (i) the date of expiration of the option as may be determined by the Board;
- (ii) the expiration of any of the periods referred to in paragraphs (l), (m), (n), (o) or (p);
- (iii) the date on which the scheme of arrangement of our Company referred to in paragraph (p) becomes effective;
- (iv) subject to paragraph (o), the date of commencement of the winding-up of our Company;
- (v) the date on which the grantee ceases to be an Eligible Participant by reason of such grantee's resignation from the employment of our Company or any of its subsidiaries or the termination of his or her employment or contract on any one or more of the grounds that he or she has been guilty of serious misconduct, or has been convicted of any criminal offense involving his or her integrity or honesty, or in relation to an employee of the Group (if so determined by the Board), or has been insolvent, bankrupt or has made compositions with his/her creditors generally or any other ground on which an employee would be entitled to terminate his employment at common law or pursuant to any applicable laws or under the grantee's service contract with the Group. A resolution of the Board to the effect that the employment of a grantee has or has not been terminated on one or more of the grounds specified in this paragraph shall be conclusive; or
- (vi) the date on which the Board shall exercise our Company's right to cancel the option at any time after the grantee commits a breach of paragraph (i) above or the options are canceled in accordance with paragraph (u) below.

(t) Alteration of the Share Option Scheme

The Share Option Scheme may be altered in any respect by resolution of the Board except that:

- (i) any alteration to the advantage of the grantees or the Eligible Participants (as the case may be) in respect of the matters contained in Rule 17.03 of the Listing Rules; and
- (ii) any material alteration to the terms and conditions of the Share Option Scheme or any change to the terms of options granted,

shall first be approved by the shareholders in general meeting provided that if the proposed alteration shall adversely affect any option granted or agreed to be granted prior to the date of alteration, such alteration shall be further subject to the grantees' approval in accordance with

the terms of the Share Option Scheme. The amended terms of the Share Option Scheme shall still comply with Chapter 17 of the Listing Rules and any change to the authority of the Board in relation to any alteration to the terms of the Share Option Scheme must be approved by shareholders in general meeting.

(u) Cancellation of options

Subject to paragraph (i) above, any cancellation of options granted but not exercised must be approved by the grantees of the relevant options in writing. For the avoidance of doubt, such approval is not required in the event any Option is cancelled pursuant to paragraph (m).

(v) Termination of the Share Option Scheme

Our Company may by resolution in general meeting or the Board at any time terminate the Share Option Scheme and in such event no further option shall be offered but the provisions of the Share Option Scheme shall remain in force to the extent necessary to give effect to the exercise of any option granted prior thereto or otherwise as may be required in accordance with the provisions of the Share Option Scheme. Options granted prior to such termination but not yet exercised at the time of termination shall continue to be valid and exercisable in accordance with the Share Option Scheme.

(w) Administration of the Board

The Share Option Scheme shall be subject to the administration of the Board whose decision as to all matters arising in relation to the Share Option Scheme or its interpretation or effect (save as otherwise provided herein) shall be final and binding on all parties.

(x) Condition of the Share Option Scheme

The Share Option Scheme is conditional on:

- (i) the Listing Committee of the Stock Exchange granting the listing of and permission to deal in the Shares which may fall to be issued pursuant to the exercise of options to be granted under the Share Option Scheme;
- (ii) the obligations of the Underwriters under the Underwriting Agreements becoming unconditional (including, if relevant, as a result of the waiver of any such condition(s)) and not being terminated in accordance with the terms of the Underwriting Agreements or otherwise;
- (iii) the commencement of dealings in the Shares on the Stock Exchange.

If the conditions in paragraph (x) above are not satisfied within two calendar months from the Adoption Date:

- (i) the Share Option Scheme shall forthwith determine;
- (ii) any option granted or agreed to be granted pursuant to the Share Option Scheme and any offer of such a grant shall be of no effect; and
- (iii) no person shall be entitled to any rights or benefits or be under any obligations under or in respect of the Share Option Scheme or any option granted thereunder.

(y) *Disclosure in annual and interim reports*

Our Company will disclose details of the Share Option Scheme in its annual and interim reports including the number of options, date of grant, exercise price, exercise period and vesting period during the financial year/period in the annual/interim reports in accordance with the Listing Rules in force from time to time.

(z) *Present status of the Share Option Scheme*

As of the Latest Practicable Date, no option had been granted or agreed to be granted under the Share Option Scheme.

Application has been made to the Listing Committee of the Stock Exchange for the listing of and permission to deal in the Shares which may fall to be issued pursuant to the exercise of the options to be granted under the Share Option Scheme, being 116,400,000 Shares.

2. Tax and other indemnities

Our Controlling Shareholders have entered into a deed of indemnity with and in favor of our Company (for itself and as trustee for each of its present subsidiaries) (being the contract referred to in paragraph (g) of the sub-section headed “Summary of material contracts” in this Appendix) to provide indemnities on a joint and several basis in respect of, among other matters, taxation resulting from income, profits or gains earned, accrued or received as well as any property claim to which any member of our Group may be subject and payable on or before the date when the Global Offering becomes unconditional and all the losses and damages suffered as a result of our failure to have obtained, or if we fail to obtain or maintain any approvals, permits, licenses and certificates required for our operations or if a fine or any other penalties is imposed on us as a result of our lending transactions to any of our affiliates.

3. Litigation

As of the Latest Practicable Date, no member of our Group was engaged in any litigation or arbitration of material importance and, so far as the Directors are aware, no litigation or claim of material importance is pending or threatened by or against any member of our Group.

4. Sole Sponsor

The Sole Sponsor has made an application on our behalf to the Listing Committee of the Stock Exchange for a listing of, and permission to deal in, all the Shares in issue and to be issued as mentioned in this prospectus (including any Shares which may fall to be issued pursuant to the exercise of the Over-allotment Option or options which may be granted under the Share Option Scheme). All necessary arrangements have been made to enable the securities to be admitted into CCASS.

5. Preliminary expenses

The preliminary expenses incurred by our Company are approximately HK\$337,000 and have been paid by our Company.

6. Promoter

Our Company has no promoter for the purposes of the Listing Rules. Save as disclosed in this prospectus, within the two years immediately preceding the date of this prospectus, no cash, securities or other benefit has been paid, allotted or given nor are any proposed to be paid, allotted or given to any promoters in connection with the Global Offering and the related transactions described in this prospectus.

7. Taxation of holders of Shares

(a) Hong Kong

The sale, purchase and transfer of Shares registered with our Company's Hong Kong branch register of members will be subject to Hong Kong stamp duty, the current rate charged on each of the purchaser and seller is 0.1% of the consideration of, if higher, of the fair value of the Shares being sold or transferred. Profits from dealings in the Shares arising in or derived from Hong Kong may also be subject to Hong Kong profits tax. Our Directors have been advised that no material liability for estate duty under the laws of China or Hong Kong would be likely to fall upon any member of our Group.

(b) Cayman Islands

Under the present Cayman Islands law, there is no stamp duty payable in the Cayman Islands on transfers of Shares.

(c) Consultation with professional advisers

Intending holders of the Shares are recommended to consult their professional advisers if they are in doubt as to the taxation implications of subscribing for, purchasing, holding or disposing of or dealing in the Shares. It is emphasized that none of our Company, our Directors, the Sole Sponsor, the Sole Global Coordinator, the Underwriters or the other parties involved in the Global Offering can accept responsibility for any tax effect on, or liabilities of, holders of Shares resulting from their subscription for, purchase, holding or disposal of or dealing in Shares or exercise of any rights attaching to them.

8. Qualification of experts

The following are the qualifications of the experts who have given opinion or advice which are contained in this prospectus:

Name	Qualifications
Citigroup Global Markets Asia Limited	Licensed to conduct Type 1 (dealing in securities), Type 4 (advising on securities), Type 6 (advising on corporate finance) and Type 7 (providing automated trading services) regulated activities under the SFO, acting as the Sole Sponsor of the Global Offering
KPMG	Certified Public Accountants
GFE Law Office	PRC legal advisors
Conyers Dill & Pearman	Cayman Islands attorneys-at-law
DTZ Debenham Tie Leung Limited	Property valuer

9. Consents of experts

Each of the experts named in paragraph 8 of this Appendix has given and has not withdrawn its written consent to the issue of this prospectus with the inclusion of its report and/or letter and/or valuation certificate and/or opinion and/or the references to its name included herein in the form and context in which it is respectively included.

10. Interests of experts in our Company

None of the persons named in paragraph 8 of this Appendix is interested beneficially or otherwise in any Shares or shares of any member of our Group or has any right or option (whether legally enforceable or not) to subscribe for or nominate persons to subscribe for any shares or securities in any member of our Group.

11. Binding effect

This prospectus shall have the effect, if an application is made in pursuance hereof, of rendering all persons concerned bound by all of the provisions (other than the penal provisions) of Sections 44A and 44B of the Companies Ordinance so far as applicable.

12. Miscellaneous

- (a) Save as disclosed in this prospectus, within the two years immediately preceding the date of this prospectus:
- (i) no share or loan capital of our Company or any of our subsidiaries has been issued or agreed to be issued or is proposed to be fully or partly paid either for cash or a consideration other than cash;
 - (ii) no share or loan capital of our Company or any of our subsidiaries is under option or is agreed conditionally or unconditionally to be put under option;
 - (iii) no commissions, discounts, brokerages or other special terms have been granted or agreed to be granted in connection with the issue or sale of any share or loan capital of our Company or any of our subsidiaries;
 - (iv) no commission has been paid or is payable for subscription, agreeing to subscribe, procuring subscription or agreeing to procure subscription of any share in our Company or any of our subsidiaries;
- (b) save as disclosed in this prospectus, there are no founder, management or deferred shares nor any debentures in our Company or any of our subsidiaries;
- (c) our Directors confirm that there has been no material adverse change in the financial or trading position or prospects of our Group since March 31, 2011 (being the date to which the latest audited combined financial statements of our Group were made up);
- (d) there has not been any interruption in the business of our Group which may have or has had a significant effect on the financial position of our Group in the 12 months preceding the date of this prospectus;
- (e) the principal register of members of our Company will be maintained in the Cayman Islands by Butterfield Fulcum Group (Cayman) Limited and a branch register of members of our Company will be maintained in Hong Kong by Computershare Hong Kong Investor Services Limited. Unless the Directors otherwise agree, all transfer and other documents of title of Shares must be lodged for registration with and registered by our Company's share register in Hong Kong and may not be lodged in the Cayman Islands. All necessary arrangements have been made to enable the Shares to be admitted to CCASS;
- (f) no company within our Group is presently listed on any stock exchange or traded on any trading system; and
- (g) our Directors have been advised that, under the Companies Law, the use of a Chinese name by our Company does not contravene the Companies Law.

13. Particulars of the Selling Shareholder

Particulars of the Selling Shareholder are as follows:

<u>Name</u>	<u>Description</u>	<u>Registered Office</u>	<u>Number of Sale Shares</u>
Yifeng Investments	Corporation	P.O. Box 957, Offshore Incorporations Centre Road Town, Tortola British Virgin Islands	27,000,000 <i>(Note)</i>

Note: If the Over-allotment Option is exercised, a further 27,000,000 Shares will be sold by the Selling Shareholder under the Over-allotment Option.

14. Bilingual Prospectus

The English language and Chinese language versions of this prospectus are being published separately in reliance upon the exemption provided by Section 4 of the Companies Ordinance (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice (Chapter 32L of the Laws of Hong Kong).

DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES

The documents attached to this prospectus and delivered to the Registrar of Companies in Hong Kong for registration were, amongst other documents:

- (a) copies of the **WHITE**, **YELLOW** and **GREEN** application forms;
- (b) the written consents referred to in the section headed “Statutory and General Information — Other Information” in Appendix VI to this prospectus;
- (c) copies of the material contracts referred to in the section headed “Statutory and General Information — Information about Our Business” in Appendix VI to this prospectus; and
- (d) a statement of particulars of the Selling Shareholder.

DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the offices of Sidley Austin, Level 39, Two International Finance Centre, 8 Finance 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) our Memorandum and Articles of Association;
- (b) the Accountant’s Report from KPMG, the text of which is set out in Appendix I to this prospectus;
- (c) the report received from KPMG relating to the unaudited pro forma financial information of our Group, the texts of which are set out in Appendix II to this prospectus;
- (d) the letters relating to the profit forecast from KPMG and the Sole Sponsor respectively, the texts of which are set out in Appendix III to this prospectus;
- (e) the letter and valuation certificate relating to our property interests prepared by DTZ, the texts of which are set out in Appendix IV to this prospectus;
- (f) the PRC legal opinion(s) dated the prospectus date issued by GFE Law Office, our legal advisers on the PRC law;
- (g) our Share Option Scheme;
- (h) the material contracts referred to in the section headed “Statutory and General Information — Information about Our Business — Summary of Material Contracts” in Appendix VI to this prospectus;
- (i) the written consents referred to in the section headed “Statutory and General Information — Other Information — Consents of Experts” in Appendix VI to this prospectus;
- (j) the service agreements referred to in the section headed “Statutory and General Information — Further Information about Directors and Substantial Shareholders — Directors — (b) Particulars of service contracts” in Appendix VI to this prospectus;
- (k) the letter of advice prepared by Conyers Dill and Pearman summarizing certain aspects of Cayman Islands company law as referred to in Appendix V to this prospectus;
- (l) the Companies Law; and
- (m) a statement of particulars of the Selling Shareholder.



CT Environmental Group Limited
中滔環保集團有限公司