



KANGDA INTERNATIONAL ENVIRONMENTAL COMPANY LIMITED

康達國際環保有限公司

(Incorporated in the Cayman Islands with limited liability)

Stock Code : 6136

GLOBAL OFFERING



Joint Global Coordinators, Joint Sponsors, Joint Bookrunners and Joint Lead Managers



MACQUARIE

ICBC



工银国际

IMPORTANT

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



KANGDA INTERNATIONAL ENVIRONMENTAL COMPANY LIMITED

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GLOBAL OFFERING

**Total Number of Offer Shares under : 500,000,000 Shares (subject to the
the Global Offering Over-allotment Option)**
Number of Public Offer Shares : 50,000,000 Shares (subject to adjustment)
**Number of International Placing Shares : 450,000,000 Shares (subject to the
Over-allotment Option and adjustment)**
**Offer Price : Not more than HK\$2.80 per Offer Share, plus
brokerage of 1%, SFC transaction levy of
0.003% and Stock Exchange trading fee of
0.005% (payable in full on application in Hong
Kong dollars and subject to refund)**
Nominal Value : HK\$0.01 per Share
Stock Code : 6136

Joint Global Coordinators, Joint Sponsors, Joint Bookrunners and Joint Lead Managers



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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 "Documents Delivered to the Registrar of Companies and Available for Inspection" in Appendix V to this prospectus, has been registered by the Registrar of Companies in Hong Kong as required by section 342C of the Cap. 32 Companies (WUMP) Ordinance. 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 documents referred to above.

The Offer Price is expected to be determined by agreement between the Joint Global Coordinators, on behalf of the Underwriters, and our Company on or before Friday, 27 June 2014 or such later time as may be agreed between the parties, but in any event, no later than Wednesday, 2 July 2014. If, for any reason, the Joint Global Coordinators, on behalf of the Underwriters, and our Company are unable to reach an agreement on the Offer Price by Wednesday, 2 July 2014, the Global Offering will not proceed and will lapse immediately. The Offer Price will be not more than HK\$2.80 per Share and is expected to be not less than HK\$2.00 per Share, unless otherwise announced. Investors applying for the Public Offer Shares must pay, on application, the maximum offer price of HK\$2.80 for each 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 is lower than HK\$2.80. The Joint Global Coordinators, on behalf of the Underwriters, may, with the consent of our Company, reduce the number of Offer Shares being offered under the Global Offering and/or the indicative Offer Price range below that stated in this prospectus at any time prior to the morning of the last day for lodging applications under the Public Offering. In such a case, notices of such reduction will be published in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) and on the websites of the Stock Exchange at www.hkexnews.hk and the Company at www.kangdaep.com as soon as practicable but in any event not later than the morning of the last day for lodging applications under the Hong Kong Public Offering.

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

Pursuant to the termination provisions contained in the Underwriting Agreement in respect of the Offer Shares, the Joint Global Coordinators, on behalf of the Hong Kong Underwriters, have the right in certain circumstances, in their absolute discretion, to terminate the obligation of the Hong Kong Underwriters pursuant to the Hong Kong Underwriting Agreement at any time prior to 8:00 a.m. on the Listing Date. Further details of the termination provisions are set out in the section headed "Underwriting — Grounds for Termination". It is important that you refer to that section for further details.

The Offer Shares have not been and will not be registered under the U.S. Securities Act of 1933, as amended from time to time (the "U.S. Securities Act") or any state securities law in the United States and may not be offered, sold, pledged or transferred within the United States, or to, or for the account or benefit of U.S. persons, except that the Offer Shares may be offered, sold or delivered (i) within 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 under the U.S. Securities Act or another exemption from registration under the U.S. Securities Act; and (ii) in offshore transactions outside the United States in reliance on Regulation S under the U.S. Securities Act.

23 June 2014

EXPECTED TIMETABLE (NOTE 1)

The Company will issue an announcement in Hong Kong to be published in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) if there is any change in the following expected timetable of the Hong Kong Public Offering.

- Latest time to complete electronic applications under
White Form eIPO service through the designated
website at www.eipo.com.hk (note 4) 11:30 a.m. on Thursday, 26 June 2014
- Application lists for the Hong Kong Public Offering open
(note 2) 11:45 a.m. on Thursday, 26 June 2014
- Latest time for lodging **WHITE** and
YELLOW Application Forms and giving
electronic application instructions
to HKSCC (note 3) 12:00 noon on Thursday, 26 June 2014
- Latest time to complete payments for **White**
Form eIPO applications by effecting internet
banking transfer(s) or PPS payment transfer(s) 12:00 noon on Thursday, 26 June 2014
- Application lists close (note 2) 12:00 noon on Thursday, 26 June 2014
- Expected Price Determination Date (note 6) Friday, 27 June 2014
- Announcement of the Offer Price, the indications of the
level of interest in the International Placing, the level of
applications in the Hong Kong Public Offering, and the basis of
allocation of the Public Offer Shares to be published in the
South China Morning Post (in English) and the Hong Kong
Economic Times (in Chinese) and at the websites of the Stock Exchange
at www.hkexnews.hk and the Company at www.kangdaep.com
on or before (note 7) Thursday, 3 July 2014
- Results of allocations in the Hong Kong Public Offering (with successful
applicants' identification document numbers, where appropriate)
to be available through a variety of channels. (See "How to apply
for the Public Offer Shares — Publication of results") from Thursday, 3 July 2014
- Results of allocations in the Hong Kong Public Offering will be available
at www.iporesults.com.hk with a "search by ID function" Thursday, 3 July 2014
- Despatch of share certificates in respect of wholly
or partially successful applications pursuant to the Hong Kong Public
Offering on or before (notes 5 & 8) Thursday, 3 July 2014

EXPECTED TIMETABLE ^(NOTE 1)

Despatch of **White Form** e-Refund payment instructions
and/or refund cheques in respect of
(where applicable) wholly or partially unsuccessful
applications on or before (*notes 3, 8 to 11*) Thursday, 3 July 2014

Dealings in Shares on the Main Board of the
Stock Exchange to commence on 9:00 a.m. on Friday, 4 July 2014

Notes:

- (1) All times refer to Hong Kong local time. Details of the structure of the Global Offering, including its conditions, are set out in the section headed “Structure of the Global Offering”.
- (2) If there is a “black” rainstorm warning or a tropical cyclone warning signal number 8 or above in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Thursday, 26 June 2014, the application lists will not open and close on that day. Further information is set out in “How to Apply for the Public Offer Shares — Effect of bad weather on the opening of the application lists”. If the application lists do not open and close on Thursday, 26 June 2014, the dates mentioned in this section headed “Expected Timetable” may be affected. A press announcement will be made by us in such event.
- (3) Applicants who apply for Public Offer Shares by giving **electronic application instructions** to HKSCC should refer to “How to Apply for the Public Offer Shares — How to apply by giving electronic application instructions to HKSCC” for details.
- (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) Share certificates for the Public Offer Shares will become valid certificates of title at 8:00 a.m. on Friday, 4 July 2014, provided that (i) the Global Offering has become unconditional in all respects; and (ii) neither of the Underwriting Agreements has been terminated in accordance with its terms. Investors who trade Shares on the basis of publicly available allocation details before the receipt of share certificates or before the share certificates become valid certificates do so entirely at their own risk.
- (6) The Offer Price is expected to be determined by Friday, 27 June 2014 but in any event, the expected time for determination of the Offer Price will not be later than Wednesday, 2 July 2014. If, for any reason, the Offer Price is not agreed between the Joint Global Coordinators, on behalf of the Underwriters, and our Company by Wednesday, 2 July 2014, the Global Offering will not proceed and will lapse.
- (7) e-Refund payment instructions/refund cheques will be issued in respect of wholly or partially unsuccessful applications pursuant to the Hong Kong Public Offering and also in respect of wholly or partially successful applications in the event that the final Offer Price is less than the price payable per Offer Share on application. Part of the applicant’s Hong Kong identity card number or passport number, or, if the application is made by joint applicants, part of the Hong Kong identity card number or passport number of the first-named applicant, provided by the applicant(s) may be printed on the refund cheque, if any. Such data would also be transferred to a third party for refund purposes. Banks may require verification of an applicant’s Hong Kong identity card number or passport number before cashing the refund cheque. Inaccurate completion of an applicant’s Hong Kong identity card number or passport number may lead to delay in encashment of, or may invalidate, the refund cheque.
- (8) Applicants who apply on **WHITE** Application Forms for 1,000,000 Public Offer Shares or more under the Hong Kong Public Offering and have provided all information required on their Application Forms may collect any refund cheque(s) and/or share certificate(s) in person 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, may do so in person from 9:00 a.m. to 1:00 p.m. on Thursday, 3 July 2014. Applicants being individuals who apply for 1,000,000 Public Offer Shares or more and opt for personal collection must not authorise any other person to make collection on their behalf. Applicants being corporations who are applying for 1,000,000 Public Offer Shares or more and opt for

EXPECTED TIMETABLE (NOTE 1)

personal collection must attend by their authorised representatives bearing letters of authorisation from their corporations stamped with the corporations' chop. Identification and (where applicable) authorisation documents acceptable to 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, must be produced at the time of collection.

- (9) Applicants who apply on **YELLOW** Application Forms for 1,000,000 Public Offer Shares or more under the Hong Kong Public Offering and have provided all information required by their Application Forms may collect their refund cheque(s), where applicable, in person but may not elect to collect their share certificate(s), which will be deposited into CCASS for the credit of their designated CCASS Participants' stock accounts or CCASS Investor Participant stock accounts, as appropriate. The procedures for collection of refund cheque(s) for **YELLOW** Application Form applicants are the same as those for **WHITE** Application Form applicants specified in note (8) above.
- (10) Applicants who apply for Public Offer Shares via **White Form eIPO** should refer to the section headed "How to Apply for Public Offer Shares — Refund of application monies".
- (11) Uncollected share certificate(s) and refund cheque(s) will be despatched by ordinary post at the applicants' own risk to the addresses specified on the relevant applications. Further details are set out in the section headed "How to apply for Public Offer Shares — Despatch/collection of share certificates and refund monies".

For details of the structure of the Global Offering, including the conditions thereof, please refer to the section headed "Structure of the Global Offering".

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IMPORTANT NOTICE TO INVESTORS

This prospectus is issued by Kangda International Environmental Company 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 Public Offer Shares offered by this prospectus pursuant to the Hong Kong Public Offering. This prospectus may not be used for the purpose of, and does not constitute, an offer 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. Our Company has not authorised 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 authorised by our Company, the Joint Global Coordinators, the Joint Bookrunners, the Joint Sponsors, the Joint Lead Managers, any of the Underwriters, any of their respective directors, or any other person 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. Since it is a summary, it does not contain all the information that may be important to you. You should read the 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” of this prospectus. You should read that section carefully before you decide to invest in the Offer Shares.

OVERVIEW

We are the leading privately-owned company for investing in and operating wastewater treatment facilities in China with the largest total daily wastewater treatment capacity in operation among privately-owned wastewater investment and operation service providers in China as at 31 December 2013, according to Frost & Sullivan. Since 2000, privately-owned companies have gradually gained market share in the PRC wastewater treatment industry, which is currently dominated by state-owned enterprises. As at 31 December 2013, we accounted for approximately 1.0% of the municipal wastewater treatment market in China in terms of daily treatment capacity in operation according to Frost & Sullivan. We offer our customers customised and integrated wastewater treatment solutions and services mainly through service concession arrangements under BOT and TOT models.

According to Frost & Sullivan, we were among the first privately-owned participants in the wastewater treatment industry in China, with over 18 years of experience in successfully implementing wastewater treatment projects for our customers, who are principally municipal, district or county level governments in China or their designees. We entered into our first wastewater treatment project under the BOT project model in 2003, and as at the Latest Practicable Date, we were engaged in the construction and/or operation of a total of 48 wastewater treatment projects under service concession arrangements, including 33 BOT projects and 15 TOT projects, covering 27 cities in nine provinces and directly-administered municipalities in China. The aggregate daily wastewater treatment capacity of our projects in operation was 1,460,000 tonnes as at the Latest Practicable Date. We also had one water supply project as at the Latest Practicable Date.

We have accumulated significant technical expertise and operational experience in the wastewater treatment industry in China. Our extensive expertise in the wastewater treatment industry enables us to select and adopt advanced wastewater treatment technologies, which we apply to projects of various scales treating different qualities of wastewater. We believe that our experience and accumulated know-how enable us to combine different wastewater treatment processes and, through our collaboration with third party institutes, to develop tailor-made processes to provide cost-effective wastewater treatment solutions to meet our customers' requirements.

SUMMARY

OUR COMPETITIVE STRENGTHS

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

- We are the leading privately-owned company for investing in and operating wastewater treatment facilities in China, and are well-positioned to benefit from significant growth opportunities in the wastewater treatment industry in China;
- We have strong project sourcing capabilities and a systematic assessment mechanism for new projects;
- We offer our customers integrated, customised and high-quality wastewater treatment solutions;
- We have well-designed management systems that enhance our operational efficiency and have established a track record of timely wastewater tariff collection; and
- We have a dedicated management team supported by experienced, proactive professionals and workforce, as well as a positive corporate culture.

OUR BUSINESS STRATEGIES

We aim to maintain our position as a leading, privately-owned wastewater treatment service provider in China. The principal strategies that we have adopted to attain this goal include the following:

- Continue to solidify our leading position in the industry by expanding our existing project portfolio and extending our geographic reach;
- Continue to pursue selective business acquisition opportunities;
- Continue to strengthen our technical capabilities and project management to further improve our operational efficiency;
- Expand into other business activities ancillary to wastewater treatment to capitalise on developments in the industry value chain; and
- Continue to strengthen our talent base through enhanced recruiting and training programs.

OUR BUSINESS AND PROJECT MODELS

We are primarily engaged in providing customised and integrated wastewater treatment solutions and services in the PRC under service concession arrangements under BOT and TOT models. In addition, during the Track Record Period, we also derived revenue from the provision of municipal infrastructure construction services of facilities primarily ancillary to wastewater treatment facilities, which we typically conducted through the BT project model. As a result of our decision to further increase our focus on service concession arrangement projects, we do not intend to enter into new BT projects in the foreseeable future. Please see the section headed “Business — BT Arrangements” in this prospectus for more information.

SUMMARY

BOT Projects

We primarily undertake BOT projects by investing in the design and construction of and operating wastewater treatment facilities for a concession period, which generally ranges from 25 to 30 years after the completion of the construction. Before selecting a project, we adopt a stringent screening process by conducting due diligence and assessing the customer's financial condition, payment capability, reputation and the potential project's environmental impact. We fund all of the project costs incurred during the design, construction and operation phases from external bank loans, cash from operations and equity contributions. We do not receive any payments from our customers during the construction phase of our BOT projects, and only receive fee payments when we operate the wastewater treatment facilities during the project's concession period. Such fee payments are based on a guaranteed minimum treatment volume together with an additional tariff for any wastewater treated in excess of the minimum volume. Upon the expiration of the concession period, we are required to transfer the facility to our customer for nil consideration.

TOT Projects

We also acquire constructed wastewater treatment facilities from local governments, their designees or other third parties, and operate the facilities during the term of the concession. Prior to acquisition, in addition to the stringent screening process we adopt for BOT projects, we conduct detailed due diligence to better understand the target wastewater treatment facilities, including the condition of the facilities and historical financial condition. We generally seek to acquire projects which we consider offer opportunities for future facility expansion or upgrade. We fund the acquisition of our TOT projects from external bank loans, cash from operations and equity contributions. After acquisition, our customers typically transfer to us the constructed facilities and grant us concession rights to operate such facilities for a certain consideration, which we pay prior to a pre-determined date or by instalments as stipulated in the agreements. The concession period typically ranges from 25 to 30 years. We receive fee payments during the concession period, which usually include a guaranteed tariff based on a guaranteed minimum treatment volume together with an additional tariff for wastewater treated in excess of the minimum volume. Upon the expiration of the concession period, we are required to transfer the facility to our customer for nil consideration.

Service Concession Arrangement Projects Status

The table below sets out our service concession arrangements projects (including wastewater treatment and water supply projects) by stages of development as at the dates indicated:

	<u>As at 31 December</u>			<u>As at 31 May</u>
	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>
Project Status:				
In operation	22	24	30	33
Pending operation				
- Under construction	4	10	12	9
- Construction completed and pending operation	—	1	6	7
Total	26	35	48	49

SUMMARY

Three of our service concession arrangement projects commenced operations in 2014 and we expect to commence operations for another 11 and five of our service concession arrangement projects in the remainder of 2014 and 2015, respectively. Following the commencement of operations of our new wastewater projects in 2014 and 2015, we expect to add an aggregate daily treatment capacity of 330,000 tonnes and 197,000 tonnes in 2014 and 2015, respectively. For further details of our projects, please see the section headed “Business — Our Project List” in this prospectus.

BT Projects

In addition, during the Track Record Period, we invested in the design and construction of municipal infrastructure or infrastructure primarily ancillary to wastewater treatment plants under a BT project model. During the Track Record Period, we carried out four BT projects, namely, Kaifeng BT project, Wendeng BT project, Gaomi BT project and Jilin BT project. For our BT projects, we pay for the cost of the design and construction of the facilities ancillary to wastewater treatment facilities and other municipal infrastructure. We fund the construction costs from external bank loans, cash from operations and equity contributions. These ancillary facilities included roads, pipe networks and drainage systems. We typically conducted our BT projects in phases. During the Track Record Period, we undertook BT projects in areas we believed to have potential for us to enter into service concession arrangements for wastewater treatment facilities in the future. Upon completing the construction and final acceptance tests for each phase of the construction, we commence discussions with the local governments or their designees, who are our customers, to determine the total consideration payable to us for the respective construction phase. Our customers commence the repurchase of a particular phase of the BT project after we enter into the repurchase agreement with them. The repurchase period is generally spread out over three to four years, with the consideration payable to us in instalments over that period. The ownership of the project will be transferred to our customers according to the proportion of repurchase price paid by them and the title of the facilities will only be fully transferred to our customers upon receipt of the entire project fee by us.

For the years ended 31 December 2011, 2012 and 2013, our gross profit attributable to BT projects amounted to RMB69.1 million, RMB108.9 million and RMB82.2 million, which represented 20.4%, 24.7% and 16.0%, respectively, of our total gross profit for the same periods.

As at Latest Practicable Date, our customers had commenced the repurchase process for three of our BT projects and we were in repurchase discussions with respect to the fourth project, Jilin BT project. We do not intend to engage in new BT projects in the future as a result of our decision to further increase our focus on service concession arrangements. For further details, please see sections headed “Business — BT Arrangements” in this prospectus.

SUPPLIERS AND CONTRACTORS

Our principal suppliers during the Track Record Period were contractors retained by us to construct our projects and install the appropriate equipment, and suppliers of equipment and raw materials. In connection with the testing, survey, design, construction and other services, we typically engage Independent Third Party contractors, such as construction contractors, design institutes or engineering companies, as the case may be, on a project-by-project basis. We usually select construction contractors through a tender offer process.

SUMMARY

We adopt a centralised contractor and supplier management system, for which our cost control management centre in our headquarters in Chongqing is responsible. Our cost control centre selects our contractors and other suppliers based on a number of criteria, including, among others, qualification, reputation, location, financial condition and track record, as well as quality, prices and payment terms of the materials or services to be provided by the applicable contractor or supplier.

For the years ended 31 December 2011, 2012 and 2013, our five largest suppliers were all contractors. Our total purchases from our largest contractor accounted for 7.9%, 7.9% and 13.0% of our total cost of sales, respectively. Our total purchases from our five largest contractors accounted for 27.6%, 30.2% and 40.9% of our total cost of sales, respectively, for the same periods. None of our Directors, their associates or any Shareholders (who, to the knowledge of our Directors, owns more than 5% of our Company's share capital as at the Latest Practicable Date) had any interest in any of our five largest suppliers or contractors during the Track Record Period. Please see the section headed "Business — Suppliers and Contractors" in this prospectus for more information.

CUSTOMERS

Our customers are generally municipal, district or county level governments or their designees in the PRC. We typically enter into agreements with our customers to provide wastewater treatment and other services on a project-by-project basis. For the years ended 31 December 2011, 2012 and 2013, our five largest customers in aggregate accounted for 74.6%, 60.6% and 46.3% of our total revenue, respectively. Sales to our largest customer accounted for 25.1%, 15.7% and 16.0%, respectively, of our total revenue for the same years. None of our Directors, their associates or any Shareholders (who, to the knowledge of our Directors, owns more than 5% of our Company's share capital as at the Latest Practicable Date) had any interest in any of our five largest customers during the Track Record Period. Please see the section headed "Business — Our Customers" in this prospectus for more information.

RISK FACTORS

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

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

- We may not be able to secure and execute new wastewater treatment projects;
- Our projects are subject to construction and operational risks;
- We require substantial funding for our projects and our inability to borrow additional amounts or refinance our existing debt at reasonable rates, or at all, could adversely affect our financial condition and results of operations, and prevent us from fulfilling our financial obligations and business objectives;

SUMMARY

- We finance a substantial portion of our project investments through bank loans and our financing costs and profitability are subject to changes in interest rates and reserve requirement ratios;
- We typically only receive payment in connection with the revenue recognised from the construction of our BOT and BT projects on receipt of cash fee payments during the operational phase of these BOT projects and in instalments following the execution of BT project repurchase agreements upon completion of their construction, and our cash inflow does not match the revenue recognised during the construction phase, which in turn could have a material and adverse effect on our business, financial condition, results of operations and prospects; and
- We are exposed to credit risk and cash flow risks in respect of the payment structure under our project agreements and payment delays or defaults by our customers may negatively affect our business, financial condition, results of operations and prospects.

SHAREHOLDER INFORMATION

Immediately after completion of the Capitalisation Issue and the Global Offering and the exchange of the Exchangeable Bonds, Kangda Holdings and the Investor will hold approximately 51.4% and 23.6% of the total issued share capital of our Company, respectively (without taking into account the Shares which may be issued upon the exercise of the Over-allotment Option or the Shares which may be issued upon the exercise of any options which may be granted under the Share Option Scheme, and assuming the Exchangeable Bonds are exchanged based on the mid-point of the Offer Price range). The shareholding structure will vary depending on the final Offer Price. For further details, please refer to the sections headed “Relationship with Controlling Shareholders” and “Substantial Shareholders” in this prospectus.

SUMMARY

SUMMARY HISTORICAL FINANCIAL INFORMATION

Consolidated Statements of Comprehensive Income

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

	Years ended 31 December		
	2011	2012	2013
	RMB'000	RMB'000	RMB'000
Revenue	734,886	999,315	1,339,679
Cost of sales	<u>(396,821)</u>	<u>(557,537)</u>	<u>(826,258)</u>
Gross profit	338,065	441,778	513,421
Other income and gains	22,219	10,129	48,455
Selling and distribution expenses	(4,697)	(7,615)	(8,659)
Administrative expenses	(68,283)	(73,631)	(103,906)
Other expenses	(2,381)	(3,692)	(3,939)
Finance costs	(99,402)	(133,900)	(167,698)
Share of profit and loss of an associate	—	—	4,005
Profit before taxation	185,521	233,069	281,679
Income tax expense	<u>(28,631)</u>	<u>(35,696)</u>	<u>(49,050)</u>
Profit for the year	<u>156,890</u>	<u>197,373</u>	<u>232,629</u>
Attributable to:			
Owners of the parent	156,890	196,540	231,563
Non-controlling interests	—	833	1,066

Our revenue increased during the Track Record Period primarily as a result of an increase in the number of our service concession arrangements. These included additional service concession arrangement projects we procured through tender and competitive bidding processes and projects we acquired through our acquisition of Beijing Chang Sheng in 2013. In addition, the increase in our revenue in 2013 and 2012 was partially attributable to the construction revenue from several phases of our BT projects.

Our profit margin decreased during the Track Record Period primarily due to the lower profit margin for the Jilin BT project, which we entered into in 2012 and for which we commenced more advanced phases of construction in 2013. The lower profit margin for the Jilin BT project was in turn primarily because of pricing pressure due to competition. As a result of our decision to further increase our focus on service concession arrangements, we do not intend to enter into new BT projects in the foreseeable future.

SUMMARY

Consolidated Statements of Financial Position

The table below sets forth our summary consolidated statements of financial position as at 31 December 2011, 2012 and 2013:

	As at 31 December		
	2011	2012	2013
	RMB'000	RMB'000	RMB'000
Non-current assets	1,563,309	1,976,518	2,720,630
Current assets	1,306,308	1,900,282	1,993,177
Current liabilities	1,076,094	1,221,954	1,381,164
Net current assets	230,214	678,328	612,013
Total assets less current liabilities	1,793,523	2,654,846	3,332,643
Non-current liabilities	1,104,936	1,538,745	1,979,913
Net assets	<u>688,587</u>	<u>1,116,101</u>	<u>1,352,730</u>
EQUITY			
Equity attributable to owners of the parent			
Owners' equity	686,137	—	—
Issued capital	—	—	—
Reserves	—	1,108,818	1,340,381
	686,137	1,108,818	1,340,381
Non-controlling interests	2,450	7,283	12,349
Total equity	<u>688,587</u>	<u>1,116,101</u>	<u>1,352,730</u>

Consolidated cash flow statements

The table below sets forth our summary consolidated cash flow statements for the periods indicated:

	Year ended 31 December		
	2011	2012	2013
	RMB'000	RMB'000	RMB'000
Net cash flow used in operating activities	(147,992)	(382,364)	(205,773)
Net cash flow from/(used in) investing activities	(88,894)	70,958	(224,501)
Net cash flow from financing activities	243,244	611,797	164,743
Net increase/(decrease) in cash and cash equivalents	6,358	300,391	(265,531)
Effect of foreign exchange rate changes	—	(2,411)	(2,661)
Cash and cash equivalents at beginning of year	239,416	245,774	543,754
Cash and cash equivalents at end of year	<u>245,774</u>	<u>543,754</u>	<u>275,562</u>

SUMMARY

The table below sets out a breakdown of the revenue, cost of sales, gross profit and gross profit margin of our business segments for the years indicated:

	Years ended 31 December											
	2011				2012				2013			
	Cost of		GP		Cost of		GP		Cost of		GP	
	Revenue	Sales	Gross Profit	Margin	Revenue	Sales	Gross Profit	Margin	Revenue	Sales	Gross Profit	Margin
RMB'000	RMB'000	RMB'000	%	RMB'000	RMB'000	RMB'000	%	RMB'000	RMB'000	RMB'000	%	
Service concession arrangements												
- Construction	179,167	149,934	29,233	16.3	263,130	212,228	50,902	19.3	531,593	426,105	105,488	19.8
- Operation	259,223	128,182	131,041	50.6	313,913	159,447	154,466	49.2	325,715	172,978	152,737	46.9
- Financial income	107,198	—	107,198	—	127,166	—	127,166	—	173,051	—	173,051	—
Subtotal	<u>545,588</u>	<u>278,116</u>	<u>267,472</u>	<u>49.0</u>	<u>704,209</u>	<u>371,675</u>	<u>332,534</u>	<u>47.2</u>	<u>1,030,359</u>	<u>599,083</u>	<u>431,276</u>	<u>41.9</u>
BT Arrangements												
- Construction	180,882	114,277	66,605	36.8	282,202	184,255	97,947	34.7	293,123	219,649	73,474	25.1
- Financial income	2,462	—	2,462	—	10,963	—	10,963	—	8,719	—	8,719	—
Subtotal	<u>183,344</u>	<u>114,277</u>	<u>69,067</u>	<u>37.7</u>	<u>293,165</u>	<u>184,255</u>	<u>108,910</u>	<u>37.1</u>	<u>301,842</u>	<u>219,649</u>	<u>82,193</u>	<u>27.2</u>
Others												
- Construction	3,288	2,073	1,215	37.0	561	518	43	7.7	5,185	4,781	404	7.8
- Operation	2,666	2,355	311	11.7	1,380	1,089	291	21.1	2,293	2,745	(452)	(19.7)
Subtotal	<u>5,954</u>	<u>4,428</u>	<u>1,526</u>	<u>25.6</u>	<u>1,941</u>	<u>1,607</u>	<u>334</u>	<u>17.2</u>	<u>7,478</u>	<u>7,526</u>	<u>(48)</u>	<u>(0.6)</u>
Total	<u><u>734,886</u></u>	<u><u>396,821</u></u>	<u><u>338,065</u></u>	<u><u>46.0</u></u>	<u><u>999,315</u></u>	<u><u>557,537</u></u>	<u><u>441,778</u></u>	<u><u>44.2</u></u>	<u><u>1,339,679</u></u>	<u><u>826,258</u></u>	<u><u>513,421</u></u>	<u><u>38.3</u></u>

SUMMARY

ACCOUNTING TREATMENT

The accounting treatment of our projects varies by project format. Our BOT and TOT projects are service concession arrangements under IFRIC Interpretation 12.

Accounting Treatment of Our Service Concession Arrangement Projects

In accordance with IFRIC Interpretation 12, the wastewater treatment projects under the service concession arrangements are classified as financial assets (financial receivables) as the investments by our Group under these service concession arrangements are covered by a payment commitment from the grantors. The fair value of the consideration given by the grantors under our service concession arrangement projects was determined with reference to the guaranteed minimum tariff as stipulated in the relevant service concession agreements. There were certain projects that were operating with additional wastewater treatment in excess of the minimum guaranteed volume, however, this situation is non-routine and has great uncertainty to predict and it is not probable that any expected future economic benefits that are attributable to the asset will flow to our Group. Since the volume of wastewater applied to calculate the minimum guaranteed tariff stipulated in the relevant service concession agreement generally covers a high percentage of the designed wastewater treatment capacity of the relevant facility (in general, the volume of wastewater applied to calculate the minimum guaranteed tariff is approximately 60% to 80% and 90% to 100% of the designed wastewater treatment capacity of a relevant facility in the first and fourth or fifth year of the relevant facility's operation, respectively), our initial investments for service concession arrangement projects generally could be recovered through the guaranteed minimum tariff of a relevant project and thus, our investment in such projects is accounted for as financial assets (financial receivables) and no remainder is recognised as intangible assets in accordance with IFRIC Interpretation 12. We initially recognise our financial assets (financial receivables) at fair value plus transaction costs that are attributable to the acquisition of the financial assets. After initial measurement, financial assets (financial receivables) are subsequently measured at amortised cost using the effective interest rate method less any allowance for impairment. The effective interest rate is determined in accordance with the PBOC rate on the execution date of the relevant project's concession agreement.

Revenue Recognition and Cashflow

Construction Revenue — We estimate our construction revenue with reference to the budgeted construction cost plus the prevailing market rate of gross margin. We engage an Independent Third Party valuer, CBRE Limited, to evaluate the construction services gross margin based on comparable rates for similar construction services rendered in similar locations at the effective date of a relevant service concession agreement. We recognise our construction revenue over the course of construction through applying the percentage of completion method, measured by reference to the proportion of costs incurred to date to the estimated total cost envisaged under the relevant service concession agreement.

Operation Revenue — We recognise operation revenue according to our wastewater treatment services provided.

SUMMARY

Revenue Recognition and Cashflow Mismatch — We typically only receive payment in connection with the revenue recognised during the construction phase of our BOT projects on receipt of cash payments during the operational phase of these BOT projects, and hence, we generally do not receive payment for construction services and cash inflow during the construction phase of such BOT projects even though we record revenue during the construction phase. We commence receipt of payments and record cash inflow once our BOT projects become commercially operational, after which a portion of such payments are allocated to settle the financial receivables and the trade and bills receivables in relation to the construction revenue recognised in the construction period. Please see “Financial Information — Principal Income Statement Components — Revenue” in this prospectus for further details.

Impairment Testing

We assess at the end of each relevant period whether there is objective evidence that a financial asset (financial receivables) or a group of financial assets (financial receivables) is required to be impaired.

For further details of our accounting treatment, please refer to the sections headed “Financial Information — Critical Accounting Policies, Estimates and Judgments” and “Financial Information — Principal Income Statement Components — Revenue” in this prospectus.

NEGATIVE OPERATING CASH FLOWS

We recorded negative net cash flows from operating activities of RMB148.0 million, RMB382.4 million, and RMB205.8 million, respectively, for the years ended 31 December 2011, 2012 and 2013. Our negative net cash flows from operating activities were primarily attributable to our projects in BOT and TOT models. Under the relevant accounting treatment, part of our cash flow used in operating activities has been used to form the non-current portion of financial receivables in our consolidated statement of financial position. For details of our operating cash flow, please refer to “Financial Information — Liquidity and Capital Resources — Cash flow used in operating activities”.

Taking into account cash generated from our operating activities, bank facilities, and estimated net proceeds from the Global Offering, our Directors confirm, and the Joint Sponsors concur, that we have sufficient working capital to meet our present requirements and for the next 12 months from the date of this prospectus.

SUMMARY

FINANCIAL RATIOS

The following table sets forth certain financial ratios of our Group for the periods and as at the dates indicated:

	For the year ended and as at 31 December		
	2011	2012	2013
Current Ratio ⁽¹⁾	1.2	1.6	1.4
Quick Ratio ⁽²⁾	1.2	1.6	1.4
Gearing Ratio ⁽³⁾	72.4%	64.6%	67.2%
Return on equity ⁽⁴⁾	27.8%	21.9%	18.8%
Return on total assets ⁽⁵⁾	6.1%	5.9%	5.4%
Interest Coverage Ratio ⁽⁶⁾	2.9	2.7	2.7
Net Profit Margin ⁽⁷⁾	21.3%	19.8%	17.4%
Net Debt to Equity Ratio ⁽⁸⁾	261.9%	182.4%	204.8%

Notes:

- (1) Current ratio is equal to current assets divided by current liabilities as at the end of the period.
- (2) Quick ratio equals our current assets less inventories divided by current liabilities as at the end of the period.
- (3) Gearing ratio equals net debt divided by the sum of net debt and total equity at the end of the period.
- (4) Return on equity represents our profit for the year as a percentage of average total equity for the same period.
- (5) Return on assets represents our profit for the year as a percentage of average total assets for the same period.
- (6) Interest coverage ratio equals our profit for the year before finance costs and income tax divided by finance costs of the same period.
- (7) Net profit margin is equal to our profit for the year divided by our total revenue for the same period.
- (8) Net debt to equity ratio equals net debt divided by total equity as at the end of the period.

RECENT DEVELOPMENTS

Subsequent to 31 December 2013, two of our BOT projects and one of our TOT projects commenced operations. As such, we were engaged in the construction and/or operation of a total of 48 wastewater treatment projects, including 33 BOT projects and 15 TOT projects as at the Latest Practicable Date. We also had one water supply project as at the Latest Practicable Date.

As far as we are aware, there have not been any changes in general economic or market conditions globally or in the industry in which we operate that materially and adversely affected our business operations and financial condition since 31 December 2013 and up to the date of this prospectus.

NO MATERIAL ADVERSE CHANGE

Our Directors confirm that, up to the date of this prospectus, there has been no material adverse change in our financial or trading position since 31 December 2013 and no event has occurred since 31 December 2013 that would materially and adversely affect the information shown in the Accountants' Report set forth in Appendix I.

SUMMARY

LISTING EXPENSES

We will incur expenses in connection with the Global Offering and Listing, which include professional fees, underwriting commissions and other fees. Approximately HK\$20.8 million of listing expenses have been incurred by us during the Track Record Period. We expect to incur an additional HK\$75.1 million until the completion of the Global Offering and Listing, of which HK\$26.7 million is expected to be charged to our consolidated statement of profit or loss and HK\$48.4 million will be accounted for as deduction from equity. The listing expenses above are an estimate for reference only and the final amount is subject to adjustment based on the actual amount of expenses to be incurred by our Group upon the completion of the Global Offering and Listing. Our Directors do not expect such expenses to have a material impact on our business and results of operations for the year ending 31 December 2014.

DIVIDEND POLICY

The payment and the amount of any dividends, if paid, will depend on the results of operations, cash flows, financial condition, statutory and regulatory restrictions on the payment of dividends by us, future prospects and other factors that we may consider relevant. Holders of the Shares will be entitled to receive such dividends pro rata to the amounts paid up or credited as paid up on the Shares. The declaration, payment and amount of dividends will be subject to our discretion.

Dividends may be paid only out of our distributable profits as permitted under the relevant laws. To the extent profits are distributed as dividends, such portion of profits will not be available to be reinvested in our operations. There can be no assurance that we will be able to declare or distribute any dividend in the amount set out in any plan of the Board or at all. The dividend distribution record in the past may not be used as a reference or basis to determine the level of dividends that may be declared or paid by us in the future. Please see the section headed “Financial Information — Dividend Policy” in this prospectus for details.

OFFERING STATISTICS

All statistics in this table are based on the assumption that the Over-allotment Option will not be exercised.

	<u>Based on an Offer Price of HK\$2.00 per Share</u>	<u>Based on an Offer Price of HK\$2.80 per Share</u>
Market capitalisation of our Shares ⁽¹⁾	HK\$4,000 million	HK\$5,600 million
Unaudited pro forma adjusted consolidated net tangible asset value per Share ⁽²⁾	HK\$1.31	HK\$1.50

Notes:

- (1) The calculation of market capitalisation is based on 2,000,000,000 Shares expected to be issued and outstanding following the completion of the Global Offering.
- (2) The unaudited pro forma adjusted consolidated net tangible asset value per Share is calculated after making the adjustments referred to in Appendix II to this prospectus and based on 2,000,000,000 Shares expected to be issued and outstanding following the completion of the Global Offering.

SUMMARY

USE OF PROCEEDS

The net proceeds of the Global Offering are expected to be approximately HK\$1,104.2 million, assuming that the Over-allotment Option is not exercised, after deducting the underwriting commissions and other estimated offering expenses payable by us and assuming the initial Public Offer Price of HK\$2.40 per Share, being the mid-point of the indicative Offer Price range set forth on the cover page of this prospectus.

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

- approximately 65%, or HK\$717.8 million, is expected to be used primarily for expanding our business and project portfolio, including:
 - approximately 35%, or HK\$386.5 million, is expected to be used to expand our project portfolio, in particular, BOT projects and TOT projects, including expansion and upgrade projects, in China, to take advantage of the PRC Government's plan to expand investments in wastewater treatment facilities; and
 - approximately 30%, or HK\$331.3 million, is expected to be used to acquire other potential suitable wastewater treatment facilities that we believe can increase our aggregate wastewater treatment capacity and allow us to access new markets and establish local customer relationships, which will complement our existing business and provide us attractive rates of return. As at the Latest Practicable Date, we had not entered into any letter of intent or agreement for such acquisition nor identified any definite acquisition target;
- approximately 20%, or HK\$220.8 million, is expected to be used for repayment of existing short-term bank borrowings;
- approximately 10%, of HK\$110.4 million, is expected to be used to fund our working capital and general corporate purposes; and
- approximately 5%, or HK\$55.2 million, is expected to be used to purchase relevant electronic equipment and software to improve and upgrade our information technology systems, including the implementation of relevant applications such as the ERP system, to facilitate our business expansion and our management of increased number of projects.

For more details, please see the section headed "Future Plans and Use of Proceeds" in this prospectus.

SUMMARY

HISTORICAL NON-COMPLIANCE

During the Track Record Period, we had several non-compliance incidents, including the fact that some of our project companies operated without passing the environmental acceptance tests for a valid sewage discharge permit and that the quality of our treated wastewater failed to meet relevant standards. For more details regarding our non-compliance, please see the section headed “Business — Non-Compliance” in this prospectus.

PROPERTIES

As at the Latest Practicable Date, some of our projects lacked relevant certificates and/or permits and we did not complete the relevant acceptance checks on completion of construction for certain properties we occupied under the relevant service concession agreements. For further details relating to our properties, please see “Business — Properties” in this prospectus.

DEFINITIONS

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

“affiliate(s)”	any other person, directly or indirectly, controlling or controlled by or under direct or indirect common control with such specified person
“Anhui Chengjian Huashan Sewage”	Anhui Chengjian Huashan Sewage Treatment Co., Ltd.* (安徽省城建花山污水處理有限公司), a limited liability company established in the PRC on 22 October 2008, which is held as to 100% by our Group after our Group’s acquisition of Beijing Chang Sheng in May 2013
“Application Form(s)”	WHITE application form(s), YELLOW application form(s) and GREEN application form(s), individually or collectively, as the context may require
“Articles of Association” or “Articles”	the articles of association of our Company conditionally adopted on 14 June 2014 and as amended from time to time, a summary of which is set out in Appendix III to this prospectus
“associate(s)”	has the meaning ascribed thereto under the Listing Rules
“Beijing Caiyu”	Chongqing Kangda Environmental Protection Industry (Group) Co., Ltd. Beijing Caiyu Wastewater Treatment Plant* (重慶康達環保產業(集團)有限公司北京采育污水處理廠), established in the PRC on 23 September 2004, is a branch of Kangda Group in Beijing
“Beijing Chang Sheng”	Beijing Chang Sheng Siyuan Environmental Protection Technology Co., Ltd.* (北京長盛思源環保科技有限公司), formerly known as Beijing Chengjian Environmental Protection Investment Development Co., Ltd.* (北京城建環保投資發展有限公司), a limited liability company established in the PRC on 10 June 2008, which is held as to 100% by Kangda Group
“Beijing Kangda”	Beijing Kangda Jiamao Environmental Protection Technology Development Co., Ltd.* (北京康達嘉茂環保科技開發有限公司), a limited liability company established in the PRC on 29 September 2011, which is held as to 100% by Kangda Group
“Beijing Urban Construction Investment”	Beijing Urban Construction Investment Development Co., Ltd.* (北京城建投資發展股份有限公司), a limited liability company established in the PRC on 30 December 1998, an Independent Third Party

DEFINITIONS

“Bengbu Water”	Bengbu Kangda Environmental Protection Water Co., Ltd.* (蚌埠康達環保水務有限公司), a limited liability company established in the PRC on 7 December 2010 and which was held as to 100% by Kangda Group, prior to its deregistration on 25 December 2012
“Board” or “Board of Directors”	the board of Directors
“Business Day”	a day on which banks in Hong Kong are generally open for business to the public and which is not a Saturday, Sunday or public holiday in Hong Kong
“BVI”	British Virgin Islands
“CAGR”	compound annual growth rate
“Cap. 32 Companies (WUMP) Ordinance”	the Companies (Winding Up and Miscellaneous Provisions) Ordinance, Chapter 32 of the Laws of Hong Kong, with effect from 3 March 2014
“Cap. 622 Companies Ordinance”	the Companies Ordinance, Chapter 622 of the Laws of Hong Kong, with effect from 3 March 2014, as amended and supplemented from time to time
“Capitalisation Issue”	the issue of 1,499,990,000 Shares upon capitalisation of certain sums standing to the credit of the share premium account of our Company referred to in the paragraph headed “Written resolutions of our Shareholders passed on 14 June 2014” under the section headed “Further Information about our Company” in Appendix IV to this prospectus
“CCASS”	the Central Clearing and Settlement System established and operated by HKSCC
“CCASS Clearing Participant”	a person admitted to participate in CCASS as a direct clearing participant or general clearing participant
“CCASS Custodian Participant”	a person admitted to participate in CCASS as a custodian participant
“CCASS Investor Participant”	a person admitted to participate in CCASS as an investor participant who may be an individual or joint individuals or a corporation
“CCASS Participant”	a CCASS Clearing Participant, a CCASS Custodian Participant or a CCASS Investor Participant

DEFINITIONS

“Chongqing Dahuang”	Chongqing Taiko & Kangda Environmental Protection Technology Co., Ltd.* (重慶大晁康達環保技術有限公司), a Sino-Japanese joint venture limited liability company established in the PRC on 28 March 2003, which is held after the Corporate Reorganisation as to 40% by Chongqing Kangda Investment and 60% by Taiko Kikai Industrial Co. Ltd., a company established in Japan in April 1956 and an Independent Third Party,
“Chongqing Huakang”	Chongqing Huakang Environmental Protection Co., Ltd.* (重慶華康環保有限公司), a limited liability company established in the PRC on 22 December 2003, which was held as to 70% by Kangda Group and 30% by Chongqing Chemical Pharmaceutical Holding (Group) Company* (重慶化醫控股(集團)公司), an Independent Third Party, prior to its deregistration on 5 September 2011
“Chongqing Kangda Investment”	Chongqing Kangda Investment Co., Ltd.* (重慶康達投資有限公司), a limited liability company established in the PRC on 14 April 2010, which is held as to 100% by Chongqing Kangte after the Corporate Reorganisation
“Chongqing Kangte”	Chongqing Kangte Environmental Protection Industry Holdings Co., Ltd.* (重慶康特環保產業控股有限公司), a limited liability company established in the PRC on 15 November 1994, which is held as to 98% by Mr. Zhao Juanxian, our chairman, an executive Director, our Controlling Shareholder and a connected person, and as to 2% by Mr. Gu Weiping, an executive Director and a connected person, on behalf of Mr. Zhao Juanxian
“Chongqing Zhongya”	Chongqing Zhongya Technology Co., Ltd.* (重慶中雅科技有限公司), a limited liability company established in the PRC on 9 August 2007, which is held as to 100% by Kangda Group
“Companies Law”	the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands
“Company” or “our Company”	Kangda International Environmental Company Limited* (康達國際環保有限公司) (previously known as Kangda International Company Limited* (康達國際有限公司)), an exempted company incorporated with limited liability under the laws of the Cayman Islands on 22 August 2011
“connected person(s)”	has the meaning ascribed thereto under the Listing Rules

DEFINITIONS

“Controlling Shareholder(s)”	has the meaning ascribed thereto under the Listing Rules and unless the context requires otherwise, refers to Mr. Zhao Juanxian, Mr. Zhao Sizhen and Kangda Holdings
“Corporate Reorganisation”	the corporate reorganisation of our Group conducted in preparation for the Listing, details of which are set out in the paragraph headed “Corporate Reorganisation” under the section headed “History and Corporate Structure” in this prospectus
“CSRC”	China Securities Regulatory Commission* (中國證券監督管理委員會), a regulatory body responsible for the supervision and regulation of the securities markets in the PRC
“Dacheng Chengjian Sewage”	Dacheng Chengjian Environmental Protection Sewage Treatment Co., Ltd.* (大城縣城建環保污水處理有限公司), a limited liability company established in the PRC on 17 November 2008, which is held as to 100% by our Group after our Group’s acquisition of Beijing Chang Sheng in May 2013
“Deed of Indemnity”	a deed of indemnity dated 14 June 2014 entered into between our Controlling Shareholders and our Company as referred to in Appendix IV of this prospectus
“Deed of Non-competition”	a deed of non-competition dated 14 June 2014 entered into by our Controlling Shareholders in favour of our Company, details of which are disclosed in the section headed “Relationship with Controlling Shareholders” in this prospectus
“Director(s)”	the director(s) of our Company
“Dongying Kangda”	Kangda (Dongying) Environmental Protection Water Co., Ltd.* (康達(東營)環保水務有限公司), a limited liability company established in the PRC on 28 November 2012, which is held as to 76.17% by Kangda Hong Kong and 23.83% by Kangda Group
“EIT Law”	Enterprise Income Tax Law of the PRC* (《中華人民共和國企業所得稅法》), promulgated by the National People’s Congress of the PRC (全國人民代表大會) on March 16, 2007 and effective as at January 1, 2008
“Exchangeable Bond”	The exchangeable bond issued by Kangda Holdings with a principal amount of HK\$737,164,130 on 24 May 2012, exchangeable into Shares held by Kangda Holdings

DEFINITIONS

“Fengcheng Kangda”	Kangda Environmental Protection (Gaomi) Fengcheng Sewage Treatment Co., Ltd.* (康達環保(高密)鳳城生活污水處理有限公司), a limited liability company established in the PRC on 8 August 2011 and is held as to 100% by Kangda Group
“Fengxian Kangda”	Fengxian Kangda Environmental Protection Water Second Sewage Treatment Co., Ltd.* (豐縣康達環保第二污水處理有限公司), a limited liability company established in the PRC on 26 August 2009 and held as to 100% by Kangda Group
“Fengxian Kangda III”	Fengxian Kangda Environmental Protection Third Sewage Treatment Co., Ltd.* (豐縣康達環保第三污水處理有限公司), a limited liability company established in the PRC on 18 October 2013 and held as to 100% by Kangda Group
“Five-Year Plan”	Five-Year Plan, as a part of China’s national economic development plan which was shaped by the Communist Party of China through the plenary sessions of the Central Committee and national congresses, is mainly planning on the major construction projects nationwide, productivity distribution and national economic significant proportion relationships, so as to regulate the targets and direction of the national economic development vision
“foreign companies”	companies incorporated or organised outside the PRC, with or without presence in the PRC but all or a majority of its operation is focused on the overseas market
“Frost & Sullivan”	Frost & Sullivan (Beijing) Inc., Shanghai Branch Co., an independent industry consultant
“Gaomi BT project”	Gaomi municipal sewage pipe network project
“Gaomi Kangda”	Kangda Environmental Protection (Gaomi) Water Co., Ltd.* (康達環保(高密)水務有限公司), a limited liability company established in the PRC on 8 May 2006 and held as to 100% by Kangda Group
“Gaomi Kangrui”	Gaomi Kangrui Environmental Protection Technology Co., Ltd.* (高密市康瑞環保科技有限公司), a limited liability company established in the PRC on 27 September 2011, which is held as to 100% by Chongqing Kangda Investment
“Gaomi Sewage Treatment”	Kangda Environmental Protection (Gaomi) Sewage Treatment Co., Ltd.* (康達環保(高密)污水處理有限公司), a limited liability company established in the PRC on 19 August 2009 and is held as to 100% by Kangda Group

DEFINITIONS

“Gaomi Zhongya”	Gaomi Zhongya Water Purification Material Co., Ltd.* (高密市中雅淨水材料有限公司), a limited liability company established in the PRC on 4 July 2011, which is held as to 100% by Chongqing Zhongya
“GDP”	gross domestic product
“Global Offering”	the Hong Kong Public Offering and the International Placing
“Government Procurement Law”	the Government Procurement Law of the People’s Republic of China (《政府採購法》) promulgated by the NPC Standing Committee on 29 June 2002 and implemented on 1 January 2003
“GREEN Application Form(s)”	the application form(s) to be completed by White Form eIPO service provider, Computershare Hong Kong Investor Services Limited
“Group”, “our Group”, “we”, “our” or “us”	our Company and its subsidiaries at the relevant time or, where the context so requires in respect of the period before our Company became the holding company of its present subsidiaries, the present subsidiaries of our Company and the businesses carried on by such subsidiaries or (as the case may be) their predecessors
“Guangrao Kangda”	Guangrao Kangda Environmental Protection Water Co., Ltd.* (廣饒康達環保水務有限公司), a limited liability company established in the PRC on 20 June 2008 and held as to 100% by Kangda Group
“Haiyang Kangda”	Haiyang Kangda Environmental Protection Water Co., Ltd.* (海陽康達環保水務有限公司), a limited liability company established in the PRC on 21 October 2010 and held as to 100% by Kangda Group
“Haiyang Xingcun Kangda”	Haiyang Xingcun Kangda Water Co., Ltd.* (海陽行村康達水務有限公司), a limited liability company established in the PRC on 14 February 2012 and held as to 100% by Kangda Group
“Harbin Kangda”	Harbin Kangda Environmental Protection Investment Co., Ltd.* (哈爾濱康達環保投資有限公司), a limited liability company established in the PRC on 10 December 2008 and held as to 100% by Kangda Group

DEFINITIONS

“Hebi Kangda”	Hebi Kangda Water Co., Ltd.* (鶴壁康達水務有限公司), a limited liability company established in the PRC on 7 February 2012, which is held as to 60% by Kangda Group, 30% by Hebi City Water (Group) Co., Ltd.* (鶴壁市城市水務(集團)有限責任公司) and 10% by Hebi Baoshan Assets Management Co., Ltd.* (鶴壁市寶山資產管理有限公司), both being substantial shareholders of Hebi Kangda
“Hebi Water Treatment”	Kangda Environmental Protection (Hebi) Water Treatment Co., Ltd.* (康達環保(鶴壁)水處理有限公司), a limited liability company established in the PRC on 15 February 2012 and is held as to 100% by Kangda Group
“HK\$”, “HK dollars” and “cents”	Hong Kong dollars and cents respectively, the lawful currency of Hong Kong
“HKSCC”	Hong Kong Securities Clearing Company Limited
“HKSCC Nominees”	HKSCC Nominees Limited, a wholly-owned subsidiary of HKSCC
“Hong Kong”, “HKSAR” or “HK”	the Hong Kong Special Administrative Region of the PRC
“Hong Kong Public Offering”	the offer for subscription of the Public Offer Shares in Hong Kong at the Offer Price and on, and subject to, the terms and conditions of this prospectus and the Application Forms, as further described in the section headed “Structure of the Global Offering” in this prospectus
“Hong Kong Share Registrar”	Computershare Hong Kong Investor Services Limited
“Hong Kong Underwriters”	the underwriters of the Hong Kong Public Offering
“Hong Kong Underwriting Agreement”	the underwriting agreement dated 20 June 2014 and entered into by, among others, our Company, the Joint Sponsors, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers and the Hong Kong Underwriters relating to the Hong Kong Public Offering
“Huadian Kangda”	Huadian Kangda Environmental Protection Water Co., Ltd.* (樺甸康達環保水務有限公司), a limited liability company established in the PRC on 21 August 2013, which is held as to 100% by Kangda Group

DEFINITIONS

“Huludao Jincheng”	Huludao Kangda Jincheng Environmental Governance Co., Ltd.* (葫蘆島康達錦程環境治理有限公司), a limited liability company established in the PRC on 18 July 2011, which is held as to 100% by Kangda Jincheng after the Corporate Reorganisation
“IFRIC Interpretation 12”	International Financial Reporting Interpretation Committee 12 Service Concession Arrangements
“IFRSs”	International Financial Reporting Standards, including International Accounting Standards (“IASs”) and interpretations promulgated by the International Accounting Standard Board
“Independent Third Party(ies)”	an individual(s) or a company(ies) who or which is/are independent of and not connected with (within the meaning of the Listing Rules) any Director, chief executive or substantial shareholder (within the meaning of the Listing Rules) of our Company, its subsidiaries or any of their respective associate(s)
“International Placing”	the conditional placing by the International Purchasers of the International Placing Shares for cash at the Offer Price plus brokerage of 1%, SFC transaction levy of 0.003% and Stock Exchange trading fee of 0.005% of the Offer Price, details of which are described in the section headed “Structure of the Global Offering” in this prospectus, on and subject to the terms and conditions stated herein and in the International Purchase Agreement
“International Placing Shares”	the 450,000,000 Shares initially offered by our Company for subscription at the Offer Price under the International Placing (subject to adjustment as described in the section headed “Structure of the Global Offering” in this prospectus) together with (unless the context otherwise requires) any Shares issued pursuant to any exercise of the Over-allotment Option
“International Purchase Agreement”	the conditional placing and underwriting agreement relating to the International Placing and to be entered into by, among others, the Company, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers and the International Underwriters, on or about the Price Determination Date
“International Purchasers”	the underwriters of the International Placing

DEFINITIONS

“Investor”	Baring Private Equity Asia V Holding (5) Limited, a limited liability company incorporated under the laws of the BVI on 2 February 2012 held as 99.35% by The Baring Asia Private Equity Fund V, L.P., an Independent Third Party
“Investor Guarantor”	The Baring Asia Private Equity Fund V, L.P., a limited partnership incorporated in the Cayman Islands on 27 August 2010, an Independent Third Party
“Jiashuoning Technology”	Chongqing Jiashuoning Technology Development Co., Ltd.* (重慶佳碩寧科技發展有限公司), a limited liability company established in the PRC on 3 December 2007, which was held as to 95% by Yaojia Technology and 5% by Mr. Gu Weiping, an executive Director and a connected person, prior to its deregistration on 12 May 2011
“Jilin Branch”	Chongqing Kangda Environmental Protection Industry (Group) Co., Ltd. Jilin Branch* (重慶康達環保產業(集團)有限公司吉林分公司), established in the PRC on 2 July 2012, which is a branch of Kangda Group in Jilin Province
“Jilin BT project”	Jilin national high and new technology industrial park municipal infrastructure constructions project
“Jilin Kangda”	Jilin Kangda Environmental Protection Co., Ltd.* (吉林康達環保有限公司), a limited liability company established in the PRC on 22 September 2011, which is held as to 51% by Kangda Group and as to 49% by Jilin Water, being a substantial shareholder of Jilin Kangda
“Jilin Water”	Jilin Sewage Treatment Company* (吉林市污水處理公司), a limited liability company established in the PRC on 18 December 1998, being a substantial shareholder of Jinlin Kangda
“Jining Kangda”	Jining Kangda Environmental Protection Water Co., Ltd.* (濟寧康達環保水務有限公司), a limited liability company established in the PRC on 27 September 2010, which is held as to 100% by Kangda Group
“Jixi Chengjian Sewage”	Jixi Xian Chengjian Sewage Treatment Co., Ltd.* (績溪縣城建污水處理有限公司), a limited liability company established in the PRC on 24 September 2007, which is held as to 100% by our Group after our Group’s acquisition of Beijing Chang Sheng in May 2013

DEFINITIONS

“Jiyuan Yuchuan Chengjian Sewage”	Jiyuan Yuchuan Chengjian Sewage Treatment Co., Ltd.* (濟源市玉川城建污水處理有限公司), a limited liability company established in the PRC on 7 July 2011, which is held as to 100% by our Group after our Group’s acquisition of Beijing Chang Sheng in May 2013
“Joint Global Coordinators” or “Joint Bookrunners” or “Joint Sponsors”	Macquarie Capital Securities Limited and ICBC International Capital Limited
“Joint Lead Managers”	Macquarie Capital Securities Limited and ICBC International Securities Limited
“Kaifeng BT project”	Henan Kaifeng municipal infrastructure construction project
“Kangda Culture”	Suzhou Kangda Culture Communication Co., Ltd.* (宿州市康達文化傳播有限公司), a limited liability company established in the PRC on 24 August 2010, which is held as to 100% by Chongqing Kangda Investment after the Corporate Reorganisation
“Kangda Environmental”	Kangda Environmental Protection Water Co., Ltd.* (康達環保水務有限公司), a limited liability company established in the PRC on 16 May 2006, which is held as to 100% by Kangda Group
“Kangda Group”	Chongqing Kangda Environmental Protection Industry (Group) Co., Ltd.* (重慶康達環保產業(集團)有限公司), a limited liability company established in the PRC on 19 July 1996, which is held as to 100% by Kangda Hong Kong after the Corporate Reorganisation
“Kangda Holdings”	Kangda Holdings Company Limited (康達控股有限公司), a limited liability company incorporated in the BVI on 21 July 2011, which is held as to 100% by Mr. Zhao Sizhen, one of our Controlling Shareholders
“Kangda Hong Kong”	Kangda Investment (Hong Kong) Company Limited (康達投資(香港)有限公司), a limited company incorporated in Hong Kong on 2 September 2011, which is held as to 100% by Kangda Investment
“Kangda Investment”	Kangda Environmental Protection Investment Limited (康達環保投資有限公司), a limited liability company incorporated in the BVI on 23 August 2011, which is held as to 100% by our Company

DEFINITIONS

“Kangda Jincheng”	Chongqing Kangda Jincheng Environmental Pollution Governance Co., Ltd.* (重慶康達錦程環境污染治理有限公司), a limited liability company established in the PRC on 24 December 2009, which is held as to 100% by Chongqing Kangte
“Kangda Zhenglong”	Beijing Kangda Zhenglong Investment Co., Ltd.* (北京康達正龍投資有限公司), a limited liability company established in the PRC on 26 July 2010 held as to 100% by Chongqing Kangda Investment
“Kangheng Property”	Wendeng Kangheng Property Co., Ltd.* (文登康恒置業有限公司), a limited liability company established in the PRC on 16 November 2010, which is held as to 20% by Kangda Investment and 80% by Kangda Zhenglong after the Corporate Reorganisation
“Kangyan Construction”	Chongqing Kangyan Construction Engineering Co., Ltd.* (重慶康岩建設工程有限公司), a limited liability company established in the PRC on 28 April 2009, which is held as to 100% by Kangda Jincheng
“Lanou Property”	Weifang Lanou Property Co., Ltd.* (濰坊藍歐置業有限公司), a limited liability company established in the PRC on 14 September 2010, which is held as to 100% by Kangda Zhenglong
“Latest Practicable Date”	13 June 2014, being the latest practicable date prior to the printing of this prospectus for the purpose of ascertaining certain information contained in this prospectus prior to its publication
“Liangshan Kangda”	Liangshan Kangda Water Co., Ltd.* (梁山康達水務有限公司), a limited liability company established in the PRC on 21 April 2014, which is held as to 100% by Kangda Group
“Linyi Water”	Kangda Environmental Protection (Linyi) Water Co., Ltd.* (康達環保(臨沂)水務有限公司), a limited liability company established in the PRC on 19 April 2007, which is held as to 100% by Kangda Group
“Linying Kangda”	Linying Kangda Environmental Protection Water Co., Ltd.* (臨潁康達環保水務有限公司), a limited liability company established in the PRC on 28 July 2008, which is held as to 100% by Kangda Group
“Listing”	the listing of the Shares on the Main Board of the Stock Exchange

DEFINITIONS

“Listing Committee”	the listing committee of the Stock Exchange
“Listing Date”	the date expected to be on or about Friday, 4 July 2014, on which the Shares are listed and from which dealings therein are permitted to take place on the Stock Exchange
“Listing Rules”	Rules Governing the Listing of Securities on the Stock Exchange (as amended from time to time)
“Macau”	the Macau Special Administrative Region of the PRC
“Main Board”	the stock exchange operated by the Stock Exchange before the establishment of the Growth Enterprise Market of the Stock Exchange (excluding the option market) and which continues to be operated by the Stock Exchange in parallel with the Growth Enterprise Market of the Stock Exchange
“Memorandum of Association” or “Memorandum”	the memorandum of association of our Company
“MEP”	Ministry of Environmental Protection of the PRC (中華人民共和國環境保護部)
“Ministry of Commerce” or “MOFCOM”	Ministry of Commerce of the PRC (中華人民共和國商務部)
“MOHURD”	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)
“Nanchang Qingshanhu Sewage”	Nanchang Qingshanhu Sewage Treatment Co., Ltd.* (南昌青山湖污水處理有限公司), a limited liability company established in the PRC on 10 December 2002, which is held as to 20% by our Group and 80% by Berlinwasser China Holdings Limited (柏林水務中國控股有限公司), an Independent Third Party, after our Group’s acquisition of Beijing Chang Sheng in May 2013
“NDRC”	National Development and Reform Commission* (中華人民共和國國家發展和改革委員會)
“Ningguo Chengjian Sewage”	Ningguo Chengjian Sewage Treatment Co., Ltd.* (寧國市城建污水處理有限公司), a limited liability company established in the PRC on 24 September 2007, which is held as to 100% by our Group after our Group’s acquisition of Beijing Chang Sheng in May 2013

DEFINITIONS

“Offer Price”	the final offer price per Offer Share (excluding brokerage, SFC transaction levy and Stock Exchange trading fee) which will be not more than HK\$2.80 and is expected to be not less than HK\$2.00, such price to be determined on Friday, 27 June 2014 or such later date before Wednesday, 2 July 2014 as may be agreed between our Company and the Joint Global Coordinators (on behalf of the Underwriters)
“Offer Shares”	the Public Offer Shares and the International Placing Shares
“Over-allotment Option”	the option to be granted by our Company to the International Purchasers, exercisable by the Joint Global Coordinators on behalf of the International Purchasers, under the International Purchase Agreement pursuant to which our Company may be required by the Joint Global Coordinators to allot and issue up to 75,000,000 additional new Shares, representing 15% of the Offer Shares initially available under the Global Offering, at the Offer Price to cover over-allocations in the International Placing, if any
“PBOC”	People’s Bank of China (中國人民銀行), the central bank of China
“Pingdingshan Kangda”	Pingdingshan Kangda Environmental Protection Water Co., Ltd.* (平頂山康達環保水務有限公司), a limited liability company established in the PRC on 18 October 2012, which is held as to 100% by Kangda Group
“PRC” or “China”	People’s Republic of China excluding, for the purpose of this prospectus, Hong Kong, Macau and Taiwan
“PRC Government” or “State”	the central government of the PRC, including all political sub-divisions (including provincial, municipal and other regional or local government entities) and instrumentalities thereof, or where the context requires, any of them
“Price Determination Agreement”	the agreement to be entered into between our Company and the Joint Global Coordinators on or before the Price Determination Date to record and fix the Offer Price
“Price Determination Date”	the date, expected to be on or about Friday, 27 June 2014 but not later than Wednesday, 2 July 2014, on which the Offer Price is determined for the purposes of the Global Offering
“privately-owned companies”	listed or non-listed companies owned by non-SOE enterprises or individuals, which are established in the PRC or a majority of its operation is focused on the PRC market, irrespective of its place of incorporation or organisation.

DEFINITIONS

“Public Offer Shares”	the 50,000,000 Shares being made available by our Company for subscription pursuant to the Hong Kong Public Offering, subject to adjustment as described in the section headed “Structure of the Global Offering” in this prospectus
“Regulation S”	Regulation S under the U.S. Securities Act
“RMB” or “Renminbi”	Renminbi, the lawful currency of the PRC
“Rule 144A”	Rule 144A under the U.S. Securities Act
“Rushan Kangda”	Rushan Kangda Water Co., Ltd.* (乳山康達水務有限公司), a limited liability company established in the PRC on 12 October 2011, which is held as to 100% by Kangda Group
“SAFE”	State Administration of Foreign Exchange* (中華人民共和國國家外匯管理局)
“SFC”	the Securities and Futures Commission of Hong Kong
“SFO”	The Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Shangqiu Kangda”	Shangqiu Kangda Sewage Treatment Co., Ltd.* (商丘康達污水處理有限公司), a limited liability company established in the PRC on 15 February 2012, which is held as to 100% by Kangda Group
“Shangqiu Water”	Kangda Environmental Protection (Shangqiu) Water Co., Ltd.* (康達環保(商丘)水務有限公司), a limited liability company established in the PRC on 19 January 2007, which is held as to 100% by Kangda Group
“Shanxian Kangda”	Shanxian Kangda Environmental Protection Water Co., Ltd.* (單縣康達環保水務有限公司), a limited liability company established in the PRC on 3 December 2012, which is held as to 100% by Kangda Group
“Share(s)”	ordinary share(s) of HK\$0.01 each in the issued share capital of our Company
“Share Option Scheme”	the share option scheme conditionally adopted by our Company on 14 June 2014, the principal terms of which are summarised under the paragraph headed “Share Option Scheme” in Appendix IV to this prospectus
“Shareholder(s)”	holder(s) of the Share(s)
“Stabilising Manager”	Macquarie Capital Securities Limited

DEFINITIONS

“Stock Borrowing Agreement”	the stock borrowing agreement expected to be entered into between the Stabilising Manager and Kangda Holdings on the Price Determination Date, pursuant to which the Stabilising Manager may borrow up to 75,000,000 Shares from Kangda Holdings to cover any over-allocation under the International Placing
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“subsidiary(ies)”	has the meaning ascribed thereto under the Listing Rules
“substantial shareholder(s)”	has the meaning ascribed thereto under the Listing Rules
“Suzhou Kangda”	Suzhou Kangda Environmental Protection Sewage Treatment Co., Ltd.* (宿州康達環保污水處理有限公司), a limited liability company established in the PRC on 4 March 2013, which is held as to 100% by Kangda Group
“Suzhou Water”	Kangda Environmental Protection (Suzhou) Water Co., Ltd.* (康達環保(宿州)水務有限公司), a limited liability company established in the PRC on 12 October 2006, which is held as to 100% by Kangda Group
“Tender Measures”	collectively, the Opinion on Accelerating the Marketisation of Municipal Public Utilities Industry* (《關於加快市政公用行業市場化進程的意見》) promulgated and implemented by the MOHURD on 27 December 2002, the Measures for the Administration on the Concession of Municipal Public Utilities* (《市政公用事業特許經營管理辦法》) promulgated by the MOHURD on 19 March 2004 and implemented on 1 May 2004, and the Opinion of Ministry of Construction on Strengthening the Supervision of Municipal Public Utilities* (《建設部關於加強市政公用事業監管的意見》) promulgated and implemented by the MOHURD on 10 September 2005
“Tianjin Kangda”	Tianjin Kangda Environmental Protection Water Co., Ltd.* (天津康達環保水務有限公司), a limited liability company established in the PRC on 8 November 2010, which is held as to 100% by Kangda Group
“Track Record Period”	the three years ended 31 December 2013
“Underwriters”	the Hong Kong Underwriters and the International Purchasers
“Underwriting Agreements”	the Hong Kong Underwriting Agreement and the International Purchase Agreement
“United States” or “US”	the United States of America within the meaning of Regulation S

DEFINITIONS

“US dollars” or “US\$”	United States dollars, the lawful currency of the United States
“U.S. Securities Act”	the United States Securities Act of 1933, as amended from time to time
“Weifang Binhai Kangda”	Weifang Binhai Kangda Environmental Protection Water Co., Ltd.* (濰坊濱海康達環保水務有限公司), a limited liability company established in the PRC on 16 November 2011, which is held as to 100% by Kangda Group
“Weifang Kangda”	Weifang Kangda Environmental Protection Water Co., Ltd.* (濰坊康達環保水務有限公司), a limited liability company established in the PRC on 19 February 2009, which is held as to 100% by Kangda Group
“Weifang Kangying”	Weifang Kangying Environmental Protection Co., Ltd.* (濰坊康鷹環保有限公司), a limited liability company established in the PRC on 16 November 2010, which was held as to 100% by Kangda Zhenglong prior to its deregistration on 31 December 2012
“Wendeng BT project”	Wendeng Nanhai New District water supply and drainage pipe network project
“Wendeng Kangda”	Wendeng Kangda Environmental Protection Water Co., Ltd.* (文登康達環保水務有限公司), a limited liability company established in the PRC on 30 November 2009, which is held as to 100% by Kangda Group
“WFOE”	wholly foreign-owned enterprise
“White Form eIPO”	applying for Public Offer Shares to be issued in your own name by submitting applications online through the designated website at www.eipo.com.hk
“White Form eIPO Service Provider”	Computershare Hong Kong Investor Services Limited
“Xuzhou Kangda”	Xuzhou Kangda Environmental Protection Water Co., Ltd.* (徐州康達環保水務有限公司), a limited liability company established in the PRC on 17 April 2006, which is held as to 100% by Kangda Group
“Yaojia Technology”	Chongqing Yaojia Technology Co., Ltd.* (重慶耀嘉科技有限公司), a limited liability company established in the PRC on 16 October 2007, which was held prior to its deregistration on 26 September 2011 as to 95% by Chongqing Zhongya and 5% by Ms. Tian Qihui (田琪惠), mother of Mr. Zhao Sizhen and the spouse of Mr. Zhao Juanxian and a connected person

DEFINITIONS

“Yucheng Dongjiao Chengjian Sewage”	Yucheng Dongjiao Chengjian Sewage Treatment Co., Ltd.* (禹城東郊城建污水處理有限公司), a limited liability company established in the PRC on 3 December 2010, which is held as to 100% by our Group after our Group’s acquisition of Beijing Chang Sheng in May 2013
“%”	per cent

If there is any inconsistency between the Chinese names of entities or enterprises established in China and their English translations, the Chinese names shall prevail. The English translation of names or any description in Chinese which are marked with “” is for identification purpose only.*

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

Unless otherwise specified, all relevant information in this prospectus assumes no exercise of the Over-allotment Option.

GLOSSARY

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.

“A/O”	Anaerobic-Oxic, a type of wastewater treatment technique, which utilises an anaerobic selector for release of soluble phosphorus and uptake of BOD by phosphorus accumulating organisms (PAOs)
“Beijing Water Pollutants Discharge Standard III”	DB11/307-2005 Class III, the fourth highest discharge standard of water pollutants, as the Beijing local standard, jointly issued by Beijing Municipal Bureau of Environmental Protection* (北京市環境保護局) and Beijing Municipal Bureau of Quality and Technology Supervision* (北京市質量技術監督局) on 22 July 2005
“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
“BOT”	Build, Operate and Transfer, a project model in which the proprietor grants to a contracted enterprise the rights to undertake the financing, design, construction, operation and maintenance of water or 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
“BT”	Build and Transfer, a project model in which an enterprise undertakes the financing, design and construction of a facility. Upon the completion of the construction, the relevant facilities will be transferred back to the proprietor for a pre-determined consideration
“CASS”	Cyclic Activated Sludge System, a type of wastewater treatment technique which incorporates a high level of process sophistication in a configuration which is cost and space effective and offers a methodology that has operational simplicity, flexibility and reliability that is not available in conventionally configured activated sludge systems. Its unique design provides an effective means for the control of filamentous sludge bulking, a common problem with conventional processes and other activated sludge systems

GLOSSARY

“Class I Standard A”	GB18918-2002 Class I Standard A, the highest treated wastewater standard (promulgated under the Discharge Standard of Pollutants for Municipal Wastewater Treatment Plant which was jointly issued by the MEP and General Administration of Quality Supervision, Inspection and Quarantine of the People’s Republic of China on 24 December 2002)
“Class I Standard B”	GB18918-2002 Class I Standard B, the second highest treated wastewater standard (promulgated under the Discharge Standard of Pollutants for Municipal Wastewater Treatment Plant which was jointly issued by the MEP and General Administration of Quality Supervision, Inspection and Quarantine of the People’s Republic of China* (國家質量監督檢驗檢疫總局) on 24 December 2002)
“Class II”	GB18918-2002 Class II, the third highest treated wastewater standard (promulgated under the Discharge Standard of Pollutants for Municipal Wastewater Treatment Plant which was jointly issued by the MEP and General Administration of Quality Supervision, Inspection and Quarantine of the People’s Republic of China on 24 December 2002)
“COD”	Chemical Oxygen Demand, a test commonly used to indirectly measure the amount of organic compounds in water
“municipal wastewater” or “wastewater”	municipal wastewater refers to all kinds of sewage that is discharged and collected into the drainage system. It includes urban sewage or wastewater from urban households, the rainfall runoff, inflow groundwater, and industrial wastewater that meets the standards to discharge into sewer lines
“m ³ ”	cubic meter
“NH ₃ -N”	ammoniacal nitrogen is a pollutant in water that mainly comes from the breaking down of nitrogen-containing organic chemicals in everyday sewage under the action of microorganisms, industrial sewage and drainage from farms. A high NH ₃ -N level may be harmful to fish and human beings
“oxidation ditch”	machinery that increases the oxygen level in wastewater
“O&M”	Operate and Maintain, a project model in which an enterprise undertakes the operations and maintenance of a water or wastewater treatment facility in exchange for a monthly fee for a pre-determined period

GLOSSARY

“sedimentation”	settling of suspended solids in a fluid through the natural process of gravity
“TN”	total nitrogen, which means the sum of nitrate-nitrogen (NO ₃ -N), nitrite-nitrogen (NO ₂ -N), ammonia-nitrogen (NH ₃ -N) and organically bonded nitrogen. It is sometimes regulated as an effluent parameter for municipal and industrial wastewater treatment plants
“TOT”	Transfer, Operate and Transfer, a project format in which the proprietor transfers the rights to operate a water or wastewater treatment facility to an enterprise for a consideration pursuant to concession agreement, in return, the enterprise can charge users a fee during the concession period, and, upon expiration of the concession period, the relevant facilities will be transferred back to the proprietor
“TP”	total phosphorus, which means the form of analysis typically cited as an effluent parameter for municipal and industrial wastewater treatment plants
“wastewater treatment”	use of physical, chemical and biological processes to remove pollutants from wastewater before discharging it into a water body or reclaiming it for re-use

FORWARD-LOOKING STATEMENTS

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

- (1) our business strategies and plan of operation;
- (2) our capital expenditure plans;
- (3) the amount and nature of, and potential for, future development of our business;
- (4) our operations and business prospects;
- (5) our dividend policy;
- (6) projects under construction or planning;
- (7) the regulatory environment of our industry in general; and
- (8) future development in our industry.

The words “anticipate”, “believe”, “could”, “estimate”, “expect”, “intend”, “may”, “plan”, “seek”, “will”, “would” and similar expressions, as they relate to us, are intended to identify a number of these forward-looking statements. 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 the risk factors described in this prospectus. One or more of these risks or uncertainties may materialise, or underlying assumptions may prove incorrect.

Subject to the requirements of the Listing Rules, we do not intend to publicly update or otherwise revise the forward-looking statements in this prospectus, whether as a result of new information, future events or otherwise. As a result of these and other risks, uncertainties and assumptions, the forward-looking events and circumstances discussed 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 in this prospectus are qualified by reference to this cautionary statement.

RISK FACTORS

Potential investors should consider carefully all the information set out in this prospectus and, in particular, should consider and evaluate the following risks in connection with an investment in our Company. Investors should also pay particular attention to the fact that we conduct our operations in the PRC, which has a legal and regulatory environment that may differ in some respects from that of other countries. Our business, financial condition, results of our operations or prospects could be adversely and materially affected by such risk and uncertainties. The trading price of the Shares could decline due to any of these risks and investors may lose all or part of their investment.

RISKS RELATING TO OUR BUSINESS

We may not be able to secure and execute new wastewater treatment projects.

We derive a substantial portion of our revenue from the construction and operation of municipal wastewater treatment projects. For the years ended 31 December 2011, 2012 and 2013, our revenue from the construction and operation of our wastewater treatment projects, which we conducted under BOT and TOT models, accounted for approximately 74.2%, 70.5% and 76.9% of our revenue, respectively. During the Track Record Period, we also engaged in four BT projects, which accounted for approximately 24.9%, 29.3% and 22.5% of our revenue during the Track Record Period, respectively. As at the Latest Practicable Date, we had commenced the repurchase process for three of our BT projects and were in the process of repurchase discussions for our fourth BT project. However, we have no plan to engage in new BT projects in the future. Our continued growth therefore depends on our ability to secure and execute new wastewater treatment projects, primarily BOT and TOT projects. We also plan to deploy more resources and expand our presence in those regions where we currently have projects. In regions where demand for wastewater treatment is growing, we plan to expand our geographic footprint by actively pursuing opportunities.

Our relationships with our customers are usually project-based, and thus, a significant customer in one year in terms of revenue may not provide the same level of revenue for us in any subsequent year or at all. We have in the past derived a significant portion of our revenue from a limited number of customers. For the years ended 31 December 2011, 2012 and 2013, our five largest customers in aggregate accounted for 74.6%, 60.6% and 46.3% of our total revenue, respectively. Sales to our largest customer accounted for 25.1%, 15.7% and 16.0%, respectively, of our total revenue for the same years. We intend to continue to source new projects from both new and existing customers to maintain and grow our revenue. Our ability to secure and execute such new projects is dependent on a number of factors, many of which are beyond our control, including:

- global, national and local economic conditions;
- government policies and regulatory requirements, including environmental standards and the level and effectiveness of government promulgation of environmental protection measures that affect our customers;
- development of our target markets, including the development of local economies and local population growth, and the resulting demand for wastewater treatment services;

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- our ability to identify feasible and attractive projects and successfully win the bids for such projects;
- our ability to collaborate with local governments to execute the construction and operation, as applicable, of the wastewater treatment projects;
- competition in the PRC's wastewater treatment industry;
- availability and cost of suitable land, infrastructure, equipment and other raw materials necessary for the development and operation of wastewater treatment facilities; and
- availability and cost of financing.

We cannot assure you that we can secure new projects on favourable terms to us or at all in the future. In addition, in the event that the service concession arrangement agreements for any of our projects are terminated due to our fault, our reputation may be harmed, which in turn may adversely affect our ability to secure new projects. If we fail to secure and execute new projects on terms and in a manner sufficient to support our anticipated growth, our business, financial condition, results of operations and prospects would be materially and adversely affected.

Our projects are subject to construction and operational risks.

Developing and operating wastewater treatment projects involves construction and operational risks. The construction and operation of our projects, including any new project that we undertake, could be adversely affected by a number of factors, including:

- the designers and/or contractors hired by us may not be able to complete the design, 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;
- the failure or malfunction of the equipment installed in our projects could result in our failure to treat wastewater to the applicable standard, which could in turn result in environmental risks or risk of default under the relevant project agreements;
- cost overruns during the construction as a result of a number of factors, many of which are beyond our control, such as increases in the raw material price or the failure of equipment vendors to perform their contractual obligations;
- shortages of, and price increases in, equipment or materials;
- labour shortages or disputes;
- changes in laws and regulations, or in the interpretation or enforcement of laws or regulations, applicable to our projects;
- industrial accidents during the construction or operation of our treatment facilities;

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- delays due to factors such as weather;
- fire, typhoons or other natural disasters;
- our raw material suppliers and the suppliers to our contractors for our projects may not supply raw materials in a timely manner or in the expected quantities/quality or at all;
- governmental or other statutory approvals or other approvals that are required for the construction, completion, expansion or operation of our projects may be delayed or denied;
- delays in the completion of construction or the commencement of commercial operation could increase the financing costs associated with the construction; and
- other unanticipated circumstances or cost increases may occur.

For example, in 2010, we were required to pay approximately RMB0.2 million in compensation to residents whose residence was damaged as a result of the construction operations for one of our projects.

As a result of the construction and operation risks mentioned above, we cannot assure you that our current or future projects will be completed on time or within budget, or if completed, that their operations will commence as anticipated. Furthermore, 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, results of operations and prospects.

We require substantial funding for our projects and our inability to borrow additional amounts or refinance our existing debt at reasonable rates, or at all, could adversely affect our financial condition and results of operations, and prevent us from fulfilling our financial obligations and business objectives.

Our BOT, TOT and BT projects typically require significant initial cash outlays. For our BOT and BT projects, we are responsible for the costs of construction of the wastewater treatment or ancillary facilities, respectively, while for our TOT projects, we are required to make substantial financial investments during the initial transfer phase of the project. In addition, during the operational phase of BOT and TOT projects, we are responsible for the cost of operations, maintenance and repair of the treatment facilities during the relevant concession term. We typically receive no payment from our customers before or during the construction phase of our BOT and BT projects, when we make substantial capital investments. For our BT projects, we usually begin receiving payments after we enter into the relevant repurchase agreements with our customers, while for our BOT projects, we only receive payments after we commence commercial operation of the relevant facilities.

We require a considerable amount of capital to purchase property, plant and equipment to construct and operate wastewater treatment facilities and their ancillary facilities, as the case may be. In 2011, 2012 and 2013, we incurred capital expenditures of RMB217.6 million, RMB410.6 million and RMB776.3 million, respectively. We expect to incur capital expenditures of approximately

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RMB1,040.9 million and RMB482.7 million for 2014 and the first half of 2015, respectively, based on our current project portfolio, without taking account of any additional projects we may procure. Please see “Financial Information — Capital Expenditures” For our BOT and BT projects, we pay the construction costs during the course of construction, while for our TOT projects we may be required to pay the total consideration upfront when we acquire the project. Usually, we receive payment from our customers over a period of 25 to 30 years in respect of our BOT and TOT projects, which, in the case of our BOT projects, only commences upon completion of the construction and commencement of commercial operation. We received cash tariff payments for our service concession arrangement agreements of RMB365.1 million, RMB414.1 million, RMB508.0 million in 2011, 2012 and 2013, respectively. We are required to fund at least 20% of the development of our projects ourselves from shareholder capital or retained earnings. We typically finance the remaining project costs using external borrowings. We will continue to finance the development of our existing and new projects by securing new financing agreements. However, there can be no assurance that we will be able to obtain such loans on terms acceptable to us, or at all. Furthermore, our loan agreements generally provide for a loan term ranging from six months to ten years while our BOT and TOT concession agreements are generally for a period of 25 to 30 years. We cannot assure you that we will be able to renew our loans for our projects on terms that are acceptable to us or in the amounts we need or at the time we need upon the expiration of the current term of the loans and in such case we may not have sufficient funds to finance the operating needs of our projects. In addition, we may not be able to obtain additional financing on terms that are acceptable to us, which would affect our ability to fully implement our development plans.

Our ability to obtain project financing is subject to a number of uncertainties, including, among other things, (i) our financial condition, results of operations, cash flows and credit history; (ii) the conditions of the global and domestic financial market; and (iii) changes in PRC monetary policy with respect to bank lending practices and conditions. For example, in June 2013, a spike in the interbank lending rate in China sent the Chinese credit market into turmoil. If adequate working capital is not available to us in a timely manner and on acceptable terms or at all, we may not be able to develop or expand our business and, therefore, our business, financial condition, results of operations and prospects may be materially and adversely affected.

We finance a substantial portion of our project investments through bank loans and our financing costs and profitability are subject to changes in interest rates and reserve requirement ratios.

We were required to make substantial financial investments during the initial phases of our projects and we have relied on bank loans to finance a significant portion of such investments during the Track Record Period. As such, as at 31 December 2011, 2012 and 2013, our net debt to equity ratio was 261.9%, 182.4% and 204.8%, respectively. We expect to continue to utilise bank loans to finance a substantial portion of our investments in projects. As our bank loans are principally denominated in Renminbi, the interest rates on our loans are primarily affected by the benchmark interest rates set by the PBOC. In China, the PBOC regulates the lending rates and reserve requirement ratios for commercial banks. Between 2011 and the Latest Practicable Date, it revised the benchmark one-year lending rate and adjusted the reserve requirement ratio for commercial banks several times. The reserve requirement refers to the amount of funds that banks must hold in reserve with the PBOC against deposits made by their customers. Increases in the bank reserve requirement ratios may negatively impact the amount of funds available to commercial banks in China to lend to businesses,

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including our Company. The benchmark one-year lending rate is currently 6%, effective on 6 July 2012. The current reserve requirement ratio, which took effect on 18 May 2012, ranges from 16.5% to 20.0%. Accordingly, changes in the interest rates and reserve requirement ratios for banks have affected and will continue to affect our financing costs and profitability. We cannot assure you that the PBOC will not further raise lending rates or reserve requirement ratios in the future and any such increase may lead to higher lending rates and/or limit the amount of funds the banks have for lending, which may increase our financing costs and thereby, materially and adversely affect our business, financial condition, results of operations and prospects.

We typically only receive payment in connection with the revenue recognised during the construction phase of our BOT and BT projects on receipt of cash payments during the operational phase of these BOT projects and in instalments following the execution of BT project repurchase agreements upon completion of their construction, and our cash inflow does not match the revenue recognised during the construction phase, which in turn could cause material and adverse effects on our business, financial condition, results of operations and prospects.

For each of our BOT projects, we only receive regular, usually monthly, cash payments from the relevant customer after the commencement of the project's commercial operation, based on the contractually agreed tariff and the volume of wastewater treated, subject to a guaranteed minimum payment. For each of our BT projects, we receive payments in instalments after we enter into a repurchase agreement for the relevant phases of our project upon completion of the construction phase of the project. We do not receive payment from our customers during the construction phase of these projects. For both our BOT and BT projects, we record revenue during the construction phase on the percentage of completion basis, based on the cost of construction incurred divided by the estimated total construction costs. The revenue recognised from the construction phase of a BOT project is also recognised as a financial receivable in our balance sheet to be offset against the allocated amount after receipt of the monthly fee payments. The revenue recognised from the construction phase of a BT project is recognised as a financial receivable after we enter into the repurchase agreement for the relevant phase of construction of the BT project.

As we receive payments only after constructed facilities become commercially operational in BOT projects or only after we enter into the repurchase agreement for the relevant phase of the BT project, our cash inflow will not match the revenue recognised in our accounts. As a result, an increase in our revenue and profit for a financial period may not be matched by a corresponding increase in our cash flow generated from operating activities.

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

We are subject to the credit risks of our customers, and our profitability and cashflow are dependent on our receipt of timely payments from our customers for the services we provide to them. Furthermore, because the stream of payments from our customers in the operational phase of our BOT, TOT and O&M projects and the repurchase period of our BT projects is our primary stream of cash flow, ensuring that we obtain payment on time is essential to our ongoing business success. Our customers are generally local municipal, district or county governments or their designees in China,

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and their payment to us generally involves an approval process, which could be time consuming. If there is any delay in payment by our customers, our profitability, working capital and cash flow may be adversely affected. There is no assurance that we will be able to collect all or any of our trade receivables within the period prescribed in our project agreements, or at all. If any of our customers face unexpected situations, including, but not limited to, financial difficulties, we may not be able to receive full or any payment of uncollected sums or enforce any judgment debts against such customers. Even though we have established a risk management system to address the credit risk that we are exposed to in our projects, there is no assurance that this system is sufficient. Collection may be challenging due to factors beyond our control. For example, any economic downturn or fiscal constraints due to factors, such as the deterioration of the local government's financial condition, may cause customers' defaults to increase and we may need to make greater provisions for receivables. In the past, certain of our customers have delayed their payment to us. Non-payment or delays in payment by our customers may materially and adversely affect our business, financial condition, results of operations and prospects. Please refer to the section headed "Financial Information — Quantitative and Qualitative Disclosures About Market Risk — Credit Risk" in this prospectus for further details.

We do not intend to enter into new BT projects in the future and our historical results of operations may not be indicative of our future performance.

As at the Latest Practicable Date, we were engaged in a total of 48 wastewater treatment projects in BOT and TOT project models, four BT projects, one O&M project and several others projects. We also had one water supply project as at the Latest Practicable Date. We had completed three BT projects and were in repurchase discussions for our fourth BT project, the Jilin BT project, as at the Latest Practicable Date. We do not intend to engage in new BT projects in the future as a result of our decision to increase our efforts to focus on service concession arrangements. For the years ended 31 December 2011, 2012 and 2013, our revenue from BT projects was RMB183.3 million, RMB293.2 million and RMB301.8 million, respectively, representing 24.9%, 29.3% and 22.5%, respectively of our total revenue for the respective year. Our gross profit from BT projects was RMB69.1 million, RMB108.9 million and RMB82.2 million for the years ended 31 December 2011, 2012 and 2013, respectively. Excluding the revenue and gross profit generated from BT projects, our total revenue for the years ended 31 December 2011, 2012 and 2013 would have been RMB551.5 million, RMB706.2 million and RMB1,037.8 million, respectively and our gross profit would have been RMB269.0 million, RMB332.9 million and RMB431.2 million, respectively. As we do not intend to conduct BT projects in the future, there is no assurance that we will be able to maintain our financial condition and results of operations at historical levels.

The construction and operation of our wastewater projects require a number of approvals, permits and licenses. If more burdensome regulatory requirements are imposed by the regulatory authorities in the future, our business, financial condition, results of operations and prospects may be materially and adversely affected.

We are required to obtain certain approvals, permits, licences and certificates from various governmental authorities in order to develop and operate each of our wastewater treatment projects according to relevant PRC laws and regulations. Details of the approvals, permits, licences and certificates we are required to obtain or maintain are set out in the section headed "Regulations" of this prospectus. We cannot assure you that all these required approvals, licences, permits and

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certificates, such as sewage discharge permits, can be obtained in a timely manner or at all. For instance, during the Track Record Period, some of our project companies operated without passing the environmental acceptance tests for a valid sewage discharge permit. If we develop and operate our projects without the required approvals, permits, licences and certificates, we may be subject to fines and penalties imposed by the relevant governmental authorities. Please see “Business — Non-Compliance” for more details.

In addition, some of these approvals, licences, 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 change. Any changes in the existing policies by the governmental authorities resulting in the imposition of more burdensome requirements may result in our failure to obtain or maintain such approvals, permits, licences and certificates. Any such failure could subject us to fines and other penalties, which could have a material and adverse effect on our business, financial condition, results of operations and prospects.

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

The development and operation of our wastewater treatment projects are subject to the terms of our service concession arrangement agreements with our customers. According to our service concession arrangement agreements, our customer can withdraw the concession and terminate the agreement without compensation if we fail to complete the construction according to the specifications as required by the relevant agreements for our BOT projects, or if the treated wastewater discharged from our facilities under our BOT or TOT projects fails to meet the standards required by the agreements and we fail to rectify such failure within the contractually stipulated period. In the event that a local government withdraws the concession for any of our BOT or TOT projects, the tariff payments we have received up to termination may not be sufficient to cover our investment cost and we may not receive any compensation for the investment we have made, which could materially and adversely affect our business, financial condition, results of operations and prospects.

We cannot assure you that the development of our projects in the planning or development phase 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 the termination of our services in whole or in part prior to the expiration of the concession term. Such failure may arise as a result of unsatisfactory project design or workmanship, staff turnover, human error, untimely delivery of services, default by our contractors, or misinterpretation of, or failure to adhere to, regulations and procedures by us or our contractors, some of which may be beyond our control. The claims against us and/or the termination of our services in whole or in part prior to the expiration of the concession term may adversely affect our business, financial condition, results of operations and prospects. In addition, in the event we are found liable for delays or failure to complete our projects to the satisfaction of our customers, we may be required to compensate our customers for their losses, which could further materially and adversely affect our

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business, financial condition, results of operations and prospects. Please refer to the sections headed “Business — Service Concession Arrangements — BOT Projects” and “Business — Service Concession Arrangements — TOT Projects” in this prospectus for more information regarding our service concession arrangement agreements and our obligations thereunder.

Excessive pollution levels in the wastewater to be treated by our treatment plants may adversely affect our earnings and may damage our facilities.

Our wastewater treatment facilities are built to treat wastewater to specified quality standards. However, the incoming wastewater to be treated by our facilities may contain pollutants exceeding the types and quantity contemplated during the design and construction of the plant, due to, among other things, industrial accidents, expansion of the industries in the surrounding area of our wastewater treatment facilities, excessive discharges of pollutants, oil spills, or other events beyond our control. For instance, in 2010 our Guangrao Kangda facility received incoming wastewater qualities that exceeded that anticipated in our original design which caused our treated wastewater quality to be unstable and resulted in our being fined a total of RMB150,000. Please see “Business — Non-Compliance”. Any excessive pollution levels of the wastewater coming into our treatment plants may adversely affect the operating costs and earnings of such plants due to the higher costs of treating the wastewater to attain the quality standard specified in the agreements with our customers. In addition, there may be disagreements as to the extent to which the incoming wastewater is considered to include levels of pollutants exceeding those set forth in our agreements. We may need to spend additional time and effort to negotiate with our customers for compensation, including agreeing an upward adjustment in the tariff payable to us.

Furthermore, we may be subject to governmental sanctions and/or liquidated damages if our treated wastewater fails to meet applicable governmental standards due to excessive pollution of the incoming wastewater, and such instances may lead to the suspension of our operations pending rectification, which in turn could adversely affect our reputation. Such excessive pollution could also damage or accelerate the deterioration of our wastewater treatment facilities, and could materially and adversely affect our business, financial condition, results of operations and prospects.

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

Our treatment plants are subject to normal wear and tear in the course of our construction and operations and exposure to the elements. As a result, our plants may require extended downtime for repairs and maintenance. However, if the time and cost required for such repairs and maintenance exceeds our expectations, our operations may be affected for a period longer than anticipated and our revenue from the project may be less than we originally projected. In addition, if any extraordinary or extensive repairs to our plants or equipment are required, due to any significant or catastrophic event or otherwise, our plants could require significant downtime during which they would not be able to treat wastewater as required under our project agreements. Any significant downtime of our plants may also have far-reaching consequences to the communities and industries around our plants, which

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in turn, could lead to our customers deciding to terminate their agreements with us or we may be subject to claims for damages. Thus, any such extraordinary or extensive repairs and maintenance, the termination of our concession agreements or any resulting claims or disputes could materially and adversely affect our business, financial condition, results of operations and prospects.

In addition, each of our projects has been or will be built to a specified designed capacity in accordance with the terms of the relevant agreement with our customers. The utilisation rate of our treatment facilities depends on a number of factors including the local population size, the types of industries in the area, the level of industrialisation, access to a relevant pipeline network and the general economic conditions in the area serviced by the relevant facilities. Though we are generally entitled to receive payment based on a guaranteed minimum volume of wastewater to be treated, our decision on whether to enter into the project may depend on our expectation of future increases in the quantity of wastewater to be treated, which may not be realised. Furthermore, we cannot assure you that our customers will not request us to amend such threshold if there is a significant reduction in demand for our service or if the incoming wastewater volume is significantly below the guaranteed level. In turn, any reduction in the guaranteed minimum volume of wastewater to be treated could have a material and adverse effect on our business, financial condition, results of operations and prospects.

We are restricted by covenants in our financing agreements.

Most of our loan agreements provide that without the lending bank's prior written consent, our project companies cannot conduct reorganisations, mergers, consolidations, changes of major equity holders, changes of business model, transfer or sale of major assets, investments, guarantees, substantial increases of debt or other actions that may affect our ability to repay the loan. In addition, certain breaches, misrepresentations or defaults by, or the insolvency of, us or any of our subsidiaries could trigger an event of default under these financing agreements, which in turn could lead to an acceleration of our indebtedness due under those agreements.

Furthermore, any increase of indebtedness may cause defaults and cross defaults under our current and future financing agreements, as well as significant reductions in our liquidity, which would have a material adverse effect on our business, financial condition, results of operations and prospects.

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

Our service concession agreements contain provisions specifying the circumstances when we can adjust the tariffs we charge, generally by reference to inflation, changes in benchmark interest rates on loans or utilities charges, and changes in relevant regulations with regard to incoming wastewater to be treated and the quality standards for treated wastewater. Certain of our contracts provide for periodic (generally bi-annual or tri-annual) assessments of tariffs. Any tariff adjustments are subject to the consent of the relevant local governments. We cannot assure you that the relevant government authorities will approve any application to increase the tariffs or complete such procedure in a timely manner. We also cannot assure you that the relevant government authorities will not reduce the tariffs

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correspondingly should the relevant benchmark prices or key cost indices decrease. 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.

Changes in our estimation of the percentage of completion of construction of our BOT and BT projects may result in a reduction in our profits and may have a significant impact on our period-to-period results of operations.

We use the percentage-of-completion method to recognise and account for revenue from our construction in progress for our BOT and BT projects. For our BOT projects, we engage an Independent Third Party valuer, CBRE Limited, to value the construction services during the Track Record Period that form a basis for us to estimate the total amount of revenue which should be recognised during the construction phase. In determining the percentage of completion for each relevant reporting period, we use the actual construction cost incurred during the period over our estimation of the total projected construction cost for the entire construction phase. We estimate the amount of construction costs for the entire construction phase based on our assessment of, among other things, the conditions and the costs of raw materials, project contractors, and equipment and other operating costs. Inaccuracies or flaws in our measurements or estimations 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 revenue and the amount of revenue recognised. Where our actual revenue recognition is different from our previous estimation, the differences will be charged to our profit and loss account in the period when such estimate has been changed. Such discrepancies may adversely affect our business, financial condition and results of operations and prospects.

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

We rely on patents and trademarks to protect our proprietary rights. As of the Latest Practicable Date, we had nine registered patents, three registered trademarks and one registered domain name in the PRC. We generally do not enter into confidentiality agreements with our personnel. If we fail to protect our intellectual property rights adequately, our competitors might gain access to our technologies. Monitoring unauthorised use of our intellectual property is difficult, and we cannot assure you that the steps we have taken will prevent the unauthorised use of our technologies. In addition, 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 favour. Moreover, any infringement upon our intellectual property rights could weaken our competitiveness in the market, which would adversely affect our business, financial condition, results of operations and prospects.

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

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

We maintain certain insurance in respect of the construction and operation of the facilities for a portion of our projects, according to the requirements of some of our concession agreements, but there are many aspects of the construction or operation phases of our projects, such as business interruption, that are not covered by our insurance. 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, but do not maintain property insurance for the raw materials used in our operations. During the Track Record Period and up to the Latest Practicable Date, no material workers' compensation claims, third party liability claims 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.

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

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

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, install, operate and maintain our treatment facilities. The prices and supply of equipment and raw materials and construction services depend on factors beyond our control, including economic conditions, competition, availability of qualified suppliers, production levels and transportation costs in the PRC. If, for any reason, our primary suppliers of equipment, raw materials and construction services reduce or discontinue their delivery of such materials to us in the quantities we need, provide us with equipment and raw materials that

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do not meet our specifications, or at prices that are not competitive or not acceptable to 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, financial condition, results of operations and prospects could materially suffer.

We currently cooperate with local suppliers in the PRC. In the event that our suppliers cease to provide supplies to us for any reason, including any potential disputes with our suppliers, we may need to find new reliable local suppliers. For 2011, 2012 and 2013, purchases from our five largest contractors, raw material and equipment suppliers amounted to RMB109.4 million, RMB168.3 million and RMB337.7 million, respectively, representing 27.6%, 30.2% and 40.9% of our total cost of sales, respectively, and payments to our largest contractor, raw material and equipment supplier amounted to RMB31.4 million, RMB44.1 million and RMB107.8 million, respectively, representing 7.9%, 7.9% and 13.0%, respectively, of our total cost of sales. If any of our key suppliers or contractors for a particular project is unable to continue providing the raw materials and equipment or other items we need, at prices and on terms and conditions we consider acceptable, we may need to obtain these items from other suppliers. We cannot assure you that we will be able to locate a replacement or find a new qualified supplier in a timely manner or at all. Failure to find a suitable replacement could jeopardise or cause a delay in the delivery of our supplies, which could materially and adversely affect our business, financial condition, results of operations and prospects.

Operation of our wastewater treatment facilities depends on, among other things, the adequate, timely and continuous supply of electricity. 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 economic growth. Furthermore, our wastewater treatment facilities are generally located in rural areas on the outskirts of developed areas of a city, with limited power supply facilities, which further increase the possibility of not having adequate and timely electricity supply. 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 operations in the future. If power supply to our plants is interrupted, our ability to adequately treat incoming wastewater may be affected, which may mean that the discharged water does not meet relevant standards. Our business, financial condition, results of operations and prospects could be materially and adversely affected as a result of any power shortages.

We depend in part on the availability of qualified third party contractors for the design and construction of wastewater treatment facilities and the installation, testing and commissioning of the necessary equipment and systems for such treatment facilities. 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, or at all, 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, but may not be achievable at all times. If we are unable to find qualified third party contractors as required, our business, financial condition, results of operations and prospects could be materially and adversely affected.

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

The wastewater treatment industry in China is highly fragmented and competitive, with a large number of service providers throughout the country. We recently decided not to undertake new BT projects, in part because of excessive competition. We compete primarily with state-owned and privately-owned and foreign wastewater treatment companies in the PRC and new entrants to the market, some of which may have a lower cost structure such as lower capital expenditures or lower financing costs or greater access to customers. They may possess more advanced treatment techniques than us or have stronger access to capital than we do. We cannot assure you that we will be able to compete successfully with the competitors in our existing markets or in the new markets where we intend to expand. Failure to maintain our competitiveness and any increase in competition may materially and adversely affect our business, financial condition, results of operations and prospects. Please refer to the section headed “Business — Competition” in this prospectus for more information about our major competitors.

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

In order to encourage the construction of environmental protection projects, entities carrying out or executing 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 the Enterprise Income Tax Law of the PRC and 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 23 of our projects 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 in respect of such income. In addition, certain of our subsidiaries are engaged in the operation of resource recycling projects, and they are entitled to enterprise income tax based on 90% of the respective enterprise’s revenue for that period.

In addition, according to the Notice of Ministry of Finance and State Administration on Taxation on Value Added Tax Policy of Comprehensive Utilisation 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 9 December 2008, the State exempts the wastewater treatment services from value-added tax from 1 January 2009 on the 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 1 January 2009. Currently, pursuant to the “Notice of Ministry of Finance and the State Administration of Taxation on Value-Added Tax Policy of Comprehensive Utilisation 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》), all of our wastewater treatment project companies 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 the future. Details of the preferential tax treatment we currently enjoy are set out in the section headed “Financial Information — Factors Affecting the Results of Operations — Taxation” in this prospectus.

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

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

While we have experienced substantial organic growth over the last few years, we intend to pursue a disciplined and targeted acquisition strategy to strengthen our market position and enhance our competitiveness in the PRC wastewater treatment industry. We will draw upon our experience in successfully acquiring Beijing Chang Sheng, and the integration of such company's operations into our business. Please refer to the section headed "Business — Our Strategies" in this prospectus for further details.

The implementation of our acquisition strategy is subject to a number of risks, including (i) not identifying certain defects in the acquired business during the due diligence process, (ii) a failure to integrate the acquired business and its personnel into our existing business, (iii) higher costs of integration than we may anticipate, (iv) any delay or failure in realising the expected benefits of the acquired business or its products or services, difficulties in obtaining government and other regulatory approvals, (v) changes in market circumstances and demands and (vi) diversion of our management's time and attention from other business concerns.

As at the Latest Practicable Date, we had not entered into any letter of intent or agreement for any future acquisition nor identified any definite acquisition target for expansion purposes. 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 acquisition strategy successfully or that we will be able to make acquisitions or investments on favourable terms to us 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, results of operations and prospects may be materially and adversely affected.

If we fail to maintain an effective system of internal controls, we may not be able to accurately report our financial results or prevent fraud.

Effective internal controls are necessary for us to provide reliable financial reports and effectively prevent fraud. We have in the past discovered, and may in the future discover, areas of our internal controls that need improvement. Any failure to implement required new or improved controls, or difficulties encountered in their implementation, could harm our operating results or cause us to fail to meet our reporting obligations.

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

The extensive industrial knowledge and operational expertise of our management team has contributed to our result-driven culture which emphasises quality, efficiency and market responsiveness. Mr. Zhao Juanxian, our chairman and executive Director, possesses extensive knowledge of business management, marketing, investment and strategic planning, in particular in the environmental protection industry. 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 revenue and profits.

Owing to the specialised 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 high quality personnel, including executive officers, business development personnel and project managers who have the necessary and required experience and expertise to conduct our business. If we are unable to attract and retain a sufficient number of suitably skilled and qualified technical specialists, our business, financial condition, results of operations and prospects would be materially and adversely affected.

We recorded negative operating cash flow for the years ended 31 December 2011, 2012 and 2013. If we continue to have negative operating cash flow in the future, our liquidity and financial condition may be materially and adversely affected.

We recorded negative operating cash flow of approximately RMB148.0 million, RMB382.4 million and RMB205.8 million for the years ended 31 December 2011, 2012 and 2013, respectively, mainly because of an increase in financial receivables for the years ended 31 December 2011, 2012 and 2013, which was primarily a result of our investments in BOT and TOT projects, and an increase in construction contracts primarily as a result of certain BT project construction. Please refer to the section headed “Financial Information — Liquidity and Capital Resources — Cash flow — Cash flow (used in)/generated from operating activities” of this prospectus for further details. We cannot assure you that we will be able to record positive operating cash flow in the future. Our liquidity and financial condition may be materially and adversely affected should our future operating cash flow remain negative, and we can’t assure you that we will have sufficient cash from other sources to fund our operations. If we resort to other financing activities to generate additional cash, we will incur additional financing costs and we cannot guarantee that we will be able to obtain the financing on terms acceptable to us or at all.

Certain defects in land use rights and the lack of relevant planning and/or construction permits and/or procedures with respect to the properties occupied by us under certain service concession agreements and other arrangements may materially and adversely affect our ability to use such properties and in turn, our business, financial condition and results of operations.

As at the Latest Practicable Date, we occupied 41 parcels of land with an aggregate gross site area of 1,937,512.20 square meters in China under concession agreements. We occupied four parcels of land used for four of our BOT projects with a gross site area of 164,561.19 square meters under our relevant service concession agreements and/or land use agreements, where the land use rights

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certificates for such parcels of land are expected to be obtained by our customers or their designees pursuant to the relevant supplemental service concession agreements who had not yet obtained such certificates as at the Latest Practicable Date. Furthermore, we occupied four parcels of land with a gross site area of 224,808.70 square meters used for our five TOT projects (our Anhui Suzhou Chengnan Wastewater Plant 1 and Plant 2 projects occupy and use the same parcel of land) under our relevant service concession agreements and/or land use agreements, where the land use rights certificates for such parcels of land are expected to be held by our customers or their designees, who did not have the relevant land use right certificate at the Latest Practicable Date. In addition, 10 of our BOT projects and two of our TOT projects (including the upgrading of the Dongying Port North Economic Development Zone Wastewater Treatment Plant (the “Dongying Project”)) lacked the relevant planning and/or construction permits and/or did not complete the acceptance check on completion of construction. With respect to the missing planning and/or construction permits and/or the incompleteness of acceptance check procedures, we did not obtain confirmation from the relevant competent government authority for one of our BOT projects and we did not receive indemnities from the relevant local governments or their designees for eight BOT projects and one TOT project. Please refer to “Business — Properties — Properties Occupied by Us Under Concession Arrangements” for further details.

The lack of relevant land use rights certificates, planning permits or construction permits and/or the incompleteness of acceptance check procedures may subject us to penalties and/or fines from the relevant PRC government authorities, including, but not limited to, returning the land we occupy, ceasing the construction work on such land, having the buildings and structures on such land being confiscated and/or paying fines in various amounts as stipulated under relevant PRC laws and regulations. In such event, our investments in and revenue to be generated from these projects may be materially impacted. The lack of confirmations from the relevant competent government authorities may increase the likelihood we will be subject to the penalties and/or fines as described above. In addition, without having indemnities from our customers or their designees under the relevant service concession agreements and/or land use agreements, we may suffer losses and may not be able to seek indemnification from such parties in the event any penalties and/or fines are imposed on us for our lack of the relevant land use rights certificates, planning permits and/or construction permits. Please see the section headed “Business — Properties” for details of the potential financial impact and other information.

We, our customers or their designees are in the process of applying for the outstanding land use rights certificates and planning and construction permits and procedures for the properties we occupy under the relevant concession agreements and/or land use agreements that we, our customers or their designees did not hold relevant certificates or permits for, but the timing for obtaining such relevant certificates or permits or completing the relevant procedures is beyond our control. Before we obtain the proper certificates and permits for such properties, our rights in relation to such properties might not be entirely protected. Any dispute or claim related to the title of the properties owned or leased by us may result in us having to relocate our facilities and offices. Furthermore, according to the relevant service concession agreements and/or land use agreements entered into between the relevant local governments and/or their designees and us with respect to 11 service concession arrangement projects, the relevant project companies may use and occupy the land within the concession period stipulated in the respective service concession agreements, land use agreements or other applicable documents and/or carry out construction work on such land, and each of them has agreed to indemnify us for relevant losses which may arise in connection with our use and occupation of the land.

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According to our PRC legal adviser, Commerce & Finance Law Offices, the enforceability of each indemnity provision under the relevant service concession agreements and/or land use agreements are subject to (i) the satisfaction of the procedural requirements under the PRC laws and regulations, (ii) the limitations and/or uncertainties described in “— Risks Relating to Conducting Business in the PRC — PRC legal system has inherent uncertainties regarding the interpretation and enforcement of PRC laws and regulations which could limit the legal protection available to the investors” and (iii) the consideration of the relevant courts having jurisdiction over the subject matter and public policies and other relevant principles to be considered by the relevant courts. We could not assure you that the indemnity provisions would be held to be enforceable in the relevant courts.

We cannot assure you that our use and occupation of the relevant land and buildings will not be challenged, and there is no assurance that we will be able to secure alternative properties for our facilities or offices if we are required to relocate. If we or our landlords cannot obtain the relevant certificates in a timely manner and our legal right to use or occupy the relevant properties is challenged, we may incur additional relocation costs, have to pay government fines, or our business operations may be disrupted. In addition, we may lose the significant investment we have made in the affected facilities and may be forced to duplicate such investment at our own cost in the new facilities, if any, to which we locate. Any of the foregoing could have a material adverse effect on our business, financial condition, results of operations and prospects. Please see the section headed “Business — Properties” in this prospectus for more information.

We may be required to make additional contributions of Mandatory Social Insurance and housing provident fund under PRC national laws and regulations.

Under the relevant PRC laws and regulations, we are required to contribute to pension insurance, unemployment insurance, maternity insurance, work-related injury insurance and medical insurance (the “Mandatory Social Insurance”) and housing provident funds for our employees. During the Track Record Period, we did not make RMB0.3 million of the necessary contributions to the Mandatory Social Insurance and housing provident funds for some of our employees located in the PRC.

For our unpaid contribution to the Mandatory Social Insurance accrued prior to the effectiveness of the Social Insurance Law of the PRC* (《中華人民共和國社會保險法》), or the Social Insurance Law, on 1 July 2011, the relevant authorities may require us to pay the outstanding amount within a prescribed time limit. If we fail to make the overdue contribution within such time limit, an additional late payment penalty at a daily rate of 0.2% of the outstanding amount may be imposed. For our unpaid contribution to the social insurance funds accrued after 1 July 2011, the relevant authorities may require us to pay the outstanding amount within the prescribed time limit with an additional late payment penalty at a daily rate of 0.05% from the due date. If we fail to make the overdue contribution within such time limit, the relevant authorities may also impose a fine on us equal to an amount between 100% and 300% of the total amount of the overdue contribution. For our unpaid housing provident fund contribution, the relevant authorities may demand that we pay our unpaid housing provident fund contributions within a prescribed time limit. If we fail to comply, the relevant authorities may apply for an order for payment from the relevant PRC court. Please see “Business — Non-Compliance” in this prospectus.

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We cannot assure you that we will not be subject to any order to rectify non-compliance in the future. Nor can we assure you that there are no or will not be any employee complaints regarding the payment of the Mandatory Social Insurance and housing provident funds against us or that we will not receive any claims with respect to the Mandatory Social Insurance and housing provident fund contributions under national laws and regulations. In addition, we may incur additional expenses to comply with such laws and regulations by the PRC Government or relevant local authorities.

Our expansion into other businesses activities ancillary to wastewater treatment may impose new challenges on us, and we may lack the necessary experience to deal with these new challenges.

We intend to expand our operations into other business activities that are ancillary to wastewater treatment, such as reclaimed water for industrial or other uses and sludge treatment. We have limited experience in reclaimed water projects and no experience in sludge treatment projects. Accordingly, our assumptions and judgements relating to the operations of such projects may not be accurate. Furthermore, the diversification of our business may impose on us new operational, management and planning demands which are significantly different from those we encounter in operating our service concession arrangements and BT arrangements and for which we may require different expertise and experience. There is no assurance that our expertise and experience in operating service concession arrangements and BT arrangements can be applied successfully or at all to the types of new businesses. If we fail to meet the challenges posed by the operation of our new businesses, our business, financial condition, results of operations and prospects may be materially and adversely affected.

RISKS RELATING TO THE INDUSTRY

We are subject to risks associated with changes in regulations for wastewater treatment services.

We are an established wastewater treatment services 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 solutions obsolete.

Changes in regulations or standards for wastewater treatment and other environmental regulations may necessitate the use of new technologies or the improvement of our existing technologies. We may need to develop new technologies or upgrade existing technologies, or upgrade existing facilities to meet the standards imposed by the relevant regulatory authorities, which will require more financial, human and other resources. Our ability to anticipate changes in regulatory standards and to develop and introduce wastewater treatment 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 new and enhanced wastewater treatment 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.

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Furthermore, 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 in 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 industry. We cannot assure you that such regulations or policies will achieve their anticipated results or that we can benefit from them. In addition, we cannot predict that the regulations or government policies will continue to support the wastewater treatment industry. In the event that we cannot respond to regulatory changes in a timely manner, our business, reputation, financial condition and results of operation may be adversely affected.

We are subject to environmental risks.

We are exposed to environmental risks due to the nature of our operations. Challenging environmental issues could arise from time to time in the future, which could affect our construction progress for our facilities, our profitability and our ability to pay dividends. Natural disasters may cause construction of our facilities to be materially delayed. In addition, the types and amounts of pollutants in the 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 that such pollution or contamination occurs 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, we could be held liable for human exposure to dangerous substances in treated wastewater or other environmental damage. Any of the foregoing could subject us to liability and damage our reputation, which could materially and adversely affect our business, financial condition, results of operations and prospects.

The enforcement of the Labour Contract Law, Social Insurance Law and other labour-related regulations in China may adversely affect our business, results of operations and prospects.

On 29 June 2007, the National People's Congress of China enacted the Labour Contract Law of the PRC (《中華人民共和國勞動合同法》), which became effective on 1 January 2008.

The Labour Contract Law establishes more restrictions and increases costs for employers to dismiss employees under certain circumstances, including specific provisions related to fixed-term employment contracts, non-fixed-term employment contracts, task-based employment, part-time employment, probation, consultation with the labour union and employee representative's council, employment without a contract, dismissal of employees, compensation upon termination and for overtime work, and collective bargaining. According to the Labour Contract Law, unless otherwise provided by law, an employer is obliged to sign a labour contract with a non-fixed term with an employee if the employer continues to hire the employee after the expiration of two consecutive fixed-term labour contracts or if the employee has worked for the employer for ten consecutive years. Severance pay is required if a labour contract expires without renewal because the employer refuses to renew the labour contract or provides less favourable terms for renewal. In addition, under the Regulations on Paid Annual Leave for Employees, which became effective on 1 January 2008, employees who have served more than one year for an employer are entitled to a paid vacation ranging from five to 15 days, depending on the number of the employee's working years at the employer.

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Employees who waive such vacation time at the request of employers are entitled to compensation equal to three times their regular daily salary for each waived vacation day. As a result of these new measures designed to enhance labour protection, our labour costs are expected to increase, which may adversely affect our business and our results of operations. In addition, the PRC Government in the future may enact further labour-related legislation that increases our labour costs and restricts our operations.

Furthermore, according to the Labour Contract Law and its implementing rules, if we intend to enforce the non-competition provisions with our employees in the employment agreements or confidentiality agreements, we have to compensate our employees on a monthly basis during the term of the restriction period after the termination or ending of the employment contract, which may cause extra expenses to us.

In addition, under the applicable PRC laws and regulations, including the Social Insurance Law, our operating subsidiaries in the PRC are required to make mandatory contributions to a number of social insurance schemes for their employees who are eligible for such benefits, which include pension, unemployment insurance, childbirth insurance, work-related injury insurance, medical insurance and housing fund plans.

As a result of these measures designed to enhance labour protection, our labour costs may increase and we cannot assure you that our employment practices do not or will not violate the Social Insurance Law and other labour-related regulations. If we are deemed to have been noncompliant with any such laws and regulations or to have failed to make adequate contributions to any social insurance schemes, we may be subject to penalties and negative publicity, and our business, results of operations and prospects may be materially adversely affected.

RISKS RELATING TO CONDUCTING BUSINESS IN THE PRC

A deterioration of overall market conditions and credit availability from lending institutions in the PRC may significantly affect our business and financial performance.

Our ability to successfully expand our business operations in the PRC depends on the overall macroeconomic conditions and other market conditions of the PRC and on the credit availability from lending institutions. Concerned with inflation and over-heating of the PRC economy, the PRC Government has taken a series of measures in recent years, including adjusting the deposit reserve ratio, as a result of which the commercial banks in the PRC have increased interest rates, reducing the credit availability in the PRC. Stricter lending policies in the PRC may affect our ability to obtain external financing, which may reduce our ability to implement our expansion strategies. Furthermore, recent events illustrate the PRC Government's determination to undertake a tightening monetary policy. We cannot assure you that the PRC Government will not implement any additional measures to tighten lending standards or that, if any such measure is implemented, it will not adversely affect our future results of operations or profitability.

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

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

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

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

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

We may be subject to PRC income tax if we are recognised as PRC tax resident.

Under the EIT Law and its implementation rules, if an enterprise incorporated outside the PRC has its “de facto management bodies” located within the PRC, such enterprise may be recognised as a PRC tax resident enterprise and be subject to the unified enterprise income tax rate of 25% on its worldwide income. Under the implementation rules for the EIT Law, “de facto management bodies” is defined as the bodies that have material and overall management control over the business, personnel, accounts and properties of an enterprise. Since all of our management is currently located in the PRC, we may be recognised as a PRC tax resident enterprise for the purpose of the EIT Law and therefore we would be subject to PRC income tax at the rate of 25% on our worldwide income. In such event, our income tax expenses may increase significantly and our net profit and profit margin could be materially and adversely affected.

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Dividends from our PRC subsidiaries and dividends on our Shares and gains on the sales of our Shares may be subject to PRC withholding taxes.

We are a Cayman Islands holding company and all of our income is ultimately derived from dividends that are paid by our subsidiary in the PRC. Under the EIT Law and its implementation rules, dividends payable to foreign enterprise investors that are not PRC tax resident 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 to the extent such dividends are deemed to have their source within the PRC are subject to up to 10% withholding tax in 1 January 2008, which may be reduced if a foreign enterprise investor is eligible for the benefits of a tax treaty with the PRC that provides for a different withholding arrangement. Pursuant to a tax arrangement between the PRC and Hong Kong and relevant PRC tax regulations, companies incorporated in Hong Kong may be subject to withholding taxes at a rate of 5% on dividends they receive from their PRC subsidiaries of which they directly hold at least 25% equity interests for twelve consecutive months preceding the receipt of dividends, on condition that other requirements, such as obtaining approvals from competent local PRC tax authorities, are satisfied. As dividends from our PRC subsidiaries will be paid to us through Kangda Hong Kong, our Hong Kong subsidiary that owns 100% equity interests in our PRC subsidiaries, those dividends may be subject to a withholding tax at the rate of 5% if relevant conditions are satisfied. However, on 27 October 2009, the State Administration of Taxation, or the SAT, promulgated the Circular on How to Understand and Recognise the “Beneficial Owner” in Tax Treaties, or Circular 601. Circular 601 clarifies that a beneficial owner is a person having actual operations and this person could be an individual, a company or any other entity. Circular 601 expressly excludes a “conduit company” that is established for the purposes of tax avoidance and dividend transfers and is not engaged in actual operations such as manufacturing, sales and management, from being a beneficial owner. It is still unclear how Circular 601 is being implemented in practice by the SAT or its local counterparts. If Kangda Hong Kong is not deemed to be a beneficial owner of such dividends, those dividends may be subject to withholding tax at the rate of 10%, instead of 5%.

In addition, if we were considered a PRC resident enterprise, dividends we pay with respect to our Shares, or any gain our Shareholders may realize from the transfer of our Shares, may be treated as income derived from sources within the PRC and be subject to PRC tax. In such case, we may be required under the EIT Law to withhold PRC income tax on dividends payable to our investors that are non-PRC resident enterprises, and our Shareholders would be required to pay PRC income tax on the transfer of our Shares. The value of our Shareholders’ investment in our Shares would be reduced as a result.

We face uncertainties with respect to indirect transfers of equity interests in PRC resident enterprises by their non-PRC holding companies.

Pursuant to the Notice on Strengthening Administration of Enterprise Income Tax for Share Transfers by Non-PRC Resident Enterprises (關於加強非居民企業股權轉讓所得企業所得稅管理的通知) (“SAT Circular 698”) issued by the SAT on 10 December 2009 with retroactive effect from 1 January 2008 and other relevant rules, where a foreign investor transfers its indirect equity interest in a PRC resident enterprise by disposing of its equity interests in an overseas holding company (“Indirect Transfer”), and such overseas holding company is located in a tax jurisdiction that: (i) has an effective tax rate of less than 12.5% or (ii) does not tax foreign income of its residents, the foreign

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investor shall report to the competent tax authority of the PRC resident enterprise this Indirect Transfer. The PRC tax authority may disregard the existence of the overseas holding company if it lacks a reasonable commercial purpose and was established for the purpose of avoiding PRC tax. As a result, gains derived from such Indirect Transfer may be subject to PRC withholding tax at a rate of up to 10%. SAT Circular 698 also provides that, where a non-PRC resident enterprise transfers its equity interests in a PRC resident enterprise to its related parties at a price lower than the fair market value, the relevant tax authority has the power to make a reasonable adjustment to the taxable income of the transaction.

There is uncertainty as to the application of SAT Circular 698. For example, while the term “Indirect Transfer” is not clearly defined, it is understood that the relevant PRC tax authorities have jurisdiction regarding requests for information over a wide range of foreign entities having no direct contact with China. Moreover, the relevant authority has not yet promulgated any formal provisions or formally declared or stated how to calculate the effective tax rates in foreign tax jurisdictions, and the process and format of the reporting of an Indirect Transfer to the competent tax authority of the relevant PRC resident enterprise. In addition, there are not any formal declarations with regard to how to determine whether a foreign investor has adopted an abusive arrangement in order to avoid PRC tax. As a result, we may become at risk of being taxed under SAT Circular 698 in the future and we may be required to expend valuable resources to comply with SAT Circular 698 or to establish that we should not be taxed under SAT Circular 698, which may have a material adverse effect on our business, prospects, financial condition and results of operations.

The PRC legal system has inherent uncertainties regarding the interpretation and enforcement of PRC laws and regulations which could limit the legal protection available to the investors.

Substantially all of our operations are conducted in the PRC. The PRC legal system is a civil law system based on written statutes, and prior court decisions can only be cited as a reference and have almost no precedent value. Since 1979, the PRC Government has been developing a comprehensive system of laws, rules and regulations in relation to economic matters, such as foreign investment, corporate organisation and governance, commerce, taxation and trade. However, because of the limited volume of published cases and their non-binding nature, the interpretation and enforcement of these laws, rules and regulations involve some degree of uncertainty, which may lead to additional restrictions and uncertainty for our business and uncertainty with respect to the outcome of any legal action investors may take against us in the PRC. In addition, we cannot predict the effect of future developments in the PRC legal system, including the promulgation of new laws, changes to existing laws or the interpretation or enforcement thereof, or the pre-emption of local regulations by national laws. Any changes to such laws and regulations may materially increase our costs and regulatory exposure in complying with them.

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During the Track Record Period, we obtained a number of our service concession arrangement projects through competitive negotiation, which was deemed not to be in violation of applicable PRC laws and regulations, according to our PRC legal adviser, Commerce & Finance Law Offices. However, we cannot assure you that the PRC regulatory authorities will reach the same legal conclusion as our PRC legal adviser. In such event, this procurement process may therefore be deemed not to be in compliance with the relevant PRC laws and regulations, which may render the relevant service concession agreements invalid.

For the years ended 31 December 2011, 2012 and 2013, we obtained eight, two and one service concession arrangement projects, respectively, through public tender and we obtained three, two and four of our service concession arrangement projects, respectively, through competitive negotiation. As at the Latest Practicable Date, out of the 49 service concession arrangement projects (including one water supply project and six BOT projects we obtained through our acquisition of Beijing Chang Sheng in 2013) we were engaged in the construction and/or operation of, 17 were originally sourced by us or third parties through public tender and the remaining 32 were originally sourced by us or third parties through competitive negotiation.

As advised by our PRC legal adviser, Commerce & Finance Law Offices, both the Government Procurement Law, which permits competitive negotiation, and the Tender Measures, which govern the public tender process, may be applicable when local governments select investors and operators for wastewater treatment projects and there is no explicit legal requirement as to which law and/or regulation must be applied by the local government in connection with its procurement of services and/or construction. Accordingly, as advised by our PRC legal adviser, when the local government customers duly exercise their legitimate power to adopt the form of competitive negotiation in accordance with the Government Procurement Law, neither the local government customers nor we are deemed to be in violation of the Tender Measures and other applicable PRC laws and regulations, and such procurement procedures adopted is valid and effective. Please refer to the sections headed “Regulations — Concession Arrangement in Wastewater Treatment Projects”, “Regulation — Bidding and Tender” and “Business — Service Concession Arrangements — BOT Projects — Tender and/or Competitive Negotiation Process; Project Agreement Negotiation” in this prospectus for further details on the two procurement methods. However, no assurance can be given that the PRC regulatory authorities will reach the same legal conclusion as our PRC legal adviser with respect to the adoption of competitive negotiation by the local government customers, in which case the relevant service concession agreements may be rendered invalid. In such event, our business, financial condition, results of operations and prospects may be materially and adversely affected.

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

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the loss of lives and widespread fear. Recently, outbreaks of an avian flu caused by the H7N9 virus, including confirmed human cases have been reported in several regions in China. 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 or H7N9 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 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 or H7N9 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, results of operations and prospects.

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 all of our revenue 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. 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 industry, including those disclosed in the section headed "Regulations" in this prospectus. 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 registration with PRC governmental authorities in case of shareholder loans to the extent that the shareholder loans do not exceed the difference between the total amount of investment and the registered capital of the relevant PRC subsidiaries. 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.

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

The value of the 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. From 1999 to 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. On 21 July 2005, the PBOC revalued Renminbi by reference to a basket of foreign currencies, including the U.S. dollar. Since then, the PBOC has allowed the official Renminbi exchange rate to float against a basket of foreign currencies. Further, from 17 March 2014, 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, which allowed the Renminbi to fluctuate against the U.S. dollar by up to 2.0% above or below the central parity rate published by the PBOC. 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.

PRC regulations on direct investment and loans by offshore holding companies to PRC entities may delay or limit us from making 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 with the proceeds from our Global Offering, are subject to PRC regulations. For example, any of our loans to our qualified PRC subsidiaries cannot exceed the difference between the total amount of investment that such PRC subsidiaries are approved to make under the relevant PRC laws and the registered capital of such 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 or make the registrations on a timely basis, or at all. If we fail to obtain such approvals or make the registrations, 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.

A failure to comply with PRC regulations regarding the registration of shares and share options held by our employees who are PRC citizens may subject such employees or us to fines and legal or administrative sanctions.

Pursuant to the Implementation Rules of the Administrative Measures on Individual Foreign Exchange, or the Individual Foreign Exchange Implementation Rules, promulgated on 5 January 2007 and implemented on February 2007 by SAFE and the Notices on Issues concerning the Foreign Exchange Administration for Domestic Individuals Participating in Share Incentive Plans of Overseas Listed Companies, or the Stock Option Rules, promulgated on 15 February 2012, PRC citizens or residents who will be granted shares or share options by an overseas-listed company according to its

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employee share holding plan, share option plan or other similar share incentive plans will be required to, through the PRC subsidiary of such overseas-listed company or a qualified PRC agent appointed by the PRC subsidiary, register with SAFE and complete certain other procedures related to the share option or share incentive plan. Currently, foreign exchange income of the participating PRC residents received from the sale of share and dividends distributed by the overseas listed company are required to be fully remitted into domestic foreign currency account of the PRC subsidiary or the qualified PRC agent before the distribution to such participants. In addition, the PRC subsidiary or the qualified PRC agent required to amend or deregister the registrations with SAFE in case of any material change in, or termination of, the share incentive plans, within the time periods provided by the Stock Option Rules. We and our PRC resident employees who will be the participants of our share incentive plan will be subject to these rules. After the Listing, we will urge the relevant employees, through our relevant PRC subsidiary or qualified PRC agent appointed by us, to conduct the registration and other procedures with SAFE. However, if we or our domestic employees fail to comply with these rules, we or our domestic employees may be subject to fines and legal or administrative sanctions.

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

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

RISKS RELATING TO THE GLOBAL OFFERING AND OUR SHARES

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

Prior to the Global Offering, there has been no public market for our Shares. The initial issue price range for our Shares was the result of negotiations among us and the Joint Global Coordinators on behalf of the Underwriter(s) and the Offer Price may differ significantly from the market price for our Shares following the Global Offering. We have applied for listing of and permission to deal in our Shares on the Stock Exchange. There is no assurance that the Global Offering will result in the development of an active, liquid public trading market for our Shares. Factors such as variations in our revenue, earnings and cash flows or any other developments of us may affect the volume and price at which our Shares will be traded.

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The market price of our Shares following this Global Offering may be volatile. The price at which the Shares will trade after the Global Offering will be determined by the marketplace, which may be influenced by many factors, some of which are beyond our control, including:

- our financial results;
- changes in securities analysts' estimates, if any, of our financial performance;
- the history of, and the prospects for, us and the industry in which we compete;
- an assessment of our management, our past and present operations, and the prospects for our business, and timing of, our future revenue and cost structures such as the views of independent research analysts, if any;
- the present state of our development;
- the valuation of publicly traded companies that are engaged in business activities similar to ours; and
- general market sentiment regarding wastewater treatment and environmental protection industries.

In addition, the Stock Exchange has from time to time experienced significant price and volume fluctuations that have affected the market prices for the securities of companies quoted on the Stock Exchange. As a result, investors in our Shares may experience volatility in the market price of their Shares and a decrease in the value of their Shares regardless of our operating performance or prospects.

Our Controlling Shareholders have substantial influence over us and the Controlling Shareholders' interests may not be aligned with the interests of our other shareholders.

Immediately after the completion of the Global Offering and the Capitalisation Issue (without taking into account the Shares which may be issued upon the exercise of the Over-allotment Option or the Shares which may be issued upon the exercise of any options which may be granted under the Share Option Scheme), and assuming the Exchangeable Bond is exchanged based on the low-end of the Offer Price range, Kangda Holdings, a BVI company which is held as to 100% by Mr. Zhao Sizhen, the son of Mr. Zhao Juanxian, our chairman and an executive Director, will own approximately 46.6% of the Shares, and the Investor will own approximately 28.4% of the Shares. In the event that the Exchangeable Bond is exchanged based on the high-end of the Offer Price range, Kangda Holdings will own approximately 54.7% of the Shares and the Investor will own approximately 20.3% of the Shares. As such, the Controlling Shareholders will have substantial influence over our business, including decisions regarding mergers, consolidations and the sale of all or substantially all of our assets, election of Directors and other significant corporate actions. This concentration of ownership may discourage, delay or prevent a change in control of our Company, which could deprive our

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shareholders of an opportunity to receive a premium for their Shares in a sale of our Company or may reduce the market price of our Shares. These actions may be taken even if they are opposed by our other shareholders, including those who purchased Shares in the Global Offering. In addition, the interests of our Controlling Shareholders may differ from the interests of our other shareholders.

Potential investors will experience immediate and substantial dilution as a result of the Global Offering and could face future dilution as a result of future financings.

Potential investors will pay a price per Share that substantially exceeds the per Share value of our net tangible assets and will therefore experience immediate dilution when potential investors purchase the Offer Shares in the Global Offering. As a result, if we were to distribute our net tangible assets to the Shareholders immediately following the Global Offering, potential investors would receive less than the amount they paid for their Shares.

We believe that our current cash and cash equivalents, anticipated cash flows from operations and the proceeds from the Global Offering will be sufficient to meet our anticipated cash needs for the foreseeable future. We may, however, require additional cash resources due to changed business conditions or other future developments relating to our existing operations, acquisitions or strategic partnerships. If additional funds are raised through the issuance of new equity or equity-linked securities of us other than on a pro rata basis to existing Shareholders, the percentage ownership of such Shareholders in us may be reduced, and such new securities may confer rights and privileges that take priority over those conferred by the Shares. Alternatively, if we meet such funding requirements by way of additional debt financing, we may have restrictions placed on us through such debt financing arrangements which may:

- limit our ability to pay dividends or require us to seek consent prior to the payment of dividends;
- require us to dedicate a substantial portion of our cash flows from operations to service our debt, thereby reducing the availability of our cash flows to fund capital expenditures, working capital requirements and other general corporate needs; and
- limit our flexibility in planning for, or reacting to, changes in our business and our industry.

Sales of substantial amounts of our Shares in the public market after the Global Offering could adversely affect the prevailing market price of our offer Shares.

Sales of substantial amounts of Shares in the public market after the completion of the Global Offering, or the perception that these sales could occur, could adversely affect the market price of our Shares. There will be 2,000,000,000 Shares outstanding immediately following the Global Offering, assuming no exercise of the Over-allotment Option. Our Controlling Shareholders and the Investor agreed that any Shares held by the Investor will be subject to a lock-up for a period of six months after the Listing, the particulars of which are set out in the paragraph headed “Underwriting Arrangements and Expenses” in the “Underwriting” section in this prospectus, but the Underwriters may release these securities from these restrictions at any time and such Shares will be freely tradable after the

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expiry of the lock-up period. Shares which are not subject to a lock-up arrangement represent approximately 25% of the total issued share capital immediately following the Global Offering (assuming no exercise of the Over-allotment Option) and will be freely tradable immediately following the Global Offering.

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

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

You may face difficulties in protecting your interests under the laws of the Cayman Islands.

Our corporate affairs are governed by, among other things, our Memorandum and Articles and the Companies Law and common law of the Cayman Islands. The rights of Shareholders to take action against our Directors, actions by minority shareholders and the fiduciary responsibilities of our Directors to us under Cayman Islands law are to a large extent governed by the common law of the Cayman Islands. The common law of the Cayman Islands is derived in part from comparatively limited judicial precedent in the Cayman Islands as well as that from English common law, which has persuasive, but not binding, authority on a court in the Cayman Islands. The laws of the Cayman Islands relating to the protection of the interests of minority shareholders differ in some respects from those in other jurisdictions.

The costs of options to be granted under the Share Option Scheme may negatively affect our results of operations and any exercise of the options granted will result in dilution to the Shareholders.

We have adopted the Share Option Scheme pursuant to which we may in the future grant to eligible participants options to subscribe for Shares. Such options to be granted under the Share Option Scheme, if exercised in full, will represent up to 10% of our issued share capital immediately following the completion of the Global Offering (assuming the Over-allotment Option and the options granted and the Share Option Scheme are not exercised).

The fair value of the options at the date of which they are granted with reference to the valuer's valuation will be charged as share-based compensation, which may have a negative effect on our results of operations. Issuance of Shares for the purpose of satisfying any award made under the Share Option Scheme will also increase the number of Shares in issue after such issuance, and thus will result in the dilution to the percentage of ownership of our Shareholders, and a possible dilution of the earnings per Share and the net asset value per Share if the additional Shares we issue in the future will be at a price lower than the earnings per Share or the net asset value per Share at that time.

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Details of the Share Option Scheme and the options to be granted thereunder are set out in the section headed “Statutory and General Information — G. Share Option Schemes” in Appendix IV to this prospectus.

We cannot guarantee the accuracy of certain facts, forecasts and other statistics with respect to the PRC, the PRC and global economy, and the PRC wastewater treatment industry contained in this prospectus.

Certain facts, forecasts and other statistics in this prospectus relating to the PRC, the PRC and global economy, individual markets within the PRC, and the PRC wastewater treatment industry have been derived from official government publications and we can guarantee neither the quality nor the reliability of such source materials. We believe that the sources of this information are appropriate sources for such information and have taken 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 our Company, the Joint Global Coordinators, the Joint Bookrunners, the Joint Sponsors, the Joint Lead Managers or any of the Underwriters, any of their respective directors and advisers or any other persons or parties involved in the Global Offering and no representation is given as to its accuracy. In all cases, investors should give consideration as to how much weight or importance they should attach to or place on such facts, forecasts or statistics.

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

We strongly caution you not to place any reliance on any information contained in press articles or other media regarding us and the Global Offering. We have not authorised the disclosure of any information in the press or media. We do not accept any responsibility for any such press or media coverage or the accuracy or completeness of any such information. We make no representation as to the appropriateness, accuracy, completeness or reliability of any such information or publication. To the extent that any such information is inconsistent or conflicts with the information contained in this prospectus, we disclaim responsibility for it. Accordingly, you are cautioned to make your investment decisions on the basis of the information contained in this prospectus only and should not rely on any other information.

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 Cap. 32 Companies (WUMP) Ordinance, the Securities and Futures (Stock Market Listing) Rules (Chapter 571V of the Laws of Hong Kong) and the Listing Rules for the purpose of giving information with regard to us. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this prospectus is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this prospectus misleading.

INFORMATION ON THE GLOBAL OFFERING

You should rely only on the information contained in this prospectus and the Application Forms to make your investment decision. We have not authorised anyone to provide you with information 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 authorised by us, the Joint Global Coordinators, the Joint Bookrunners, the Joint Lead Managers, the Joint Sponsors, any of the Underwriters, any of our or their respective directors, officers or representatives or any other person involved in the Global Offering. Neither the delivery of this prospectus nor any offering, sale or delivery made in connection with the Shares should, under any circumstances, constitute a representation that there has been no change or development reasonably likely to involve a change in our affairs since the date of this prospectus or imply that the information contained in this prospectus is correct as of any date subsequent to the date of this prospectus.

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

UNDERWRITING

For applicants under the Hong Kong Public Offering, this prospectus and the Application Forms set out the terms and conditions of the Hong Kong Public Offering.

The listing of, and permission to deal in, the Shares on the Stock Exchange is jointly sponsored by the Joint Sponsors. Pursuant to the Hong Kong Underwriting Agreement, the Hong Kong Public Offering is fully underwritten by the Hong Kong Underwriters on a conditional basis. The International Placing is expected to be fully underwritten by the International Purchasers. If, for any reason, the Offer Price is not agreed among us and the Joint Global Coordinators (on behalf of the Underwriters), the Global Offering will not proceed. For further details about the Underwriters and the underwriting arrangements, please refer to the section headed "Underwriting" in this prospectus.

INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

RESTRICTIONS ON OFFERS AND SALES OF SHARES

Each person acquiring the Public 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 a public offering of the Offer Shares or the general distribution of this prospectus and/or the Application Forms in any jurisdiction other than in Hong Kong. Accordingly, this prospectus may not be used for the purposes of, and does not constitute, an offer or invitation in any jurisdiction or in any circumstances in which such an offer or invitation is not authorised or to any person to whom it is unlawful to make such an offer or invitation. The distribution of this prospectus and the offering 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 and pursuant to registration with or authorisation by the relevant securities regulatory authorities or an exemption therefrom.

APPLICATION FOR LISTING OF THE SHARES ON THE STOCK EXCHANGE

We have applied to the Listing Committee for the listing of, and permission to deal in, the Shares in issue and to be issued pursuant to the Global Offering (including any Shares which may be issued pursuant to the exercise of the Over-allotment Option) and any Shares which may be issued under the Share Option Scheme.

No part of the share capital of our Company is listed on or dealt in on any other stock exchange and no such listing or permission to list is being or is proposed to be sought in the future.

COMMENCEMENT OF DEALINGS IN THE SHARES

Assuming that the Hong Kong Public Offering becomes unconditional at or before 8:00 a.m. in Hong Kong on Friday, 4 July 2014, it is expected that dealings in our Shares on the Stock Exchange will commence at 9:00 a.m. on Friday, 4 July 2014. The Shares will be traded in board lots of 1,000 Shares each. The stock code of the Shares will be 6136.

PROFESSIONAL TAX ADVICE RECOMMENDED

You should consult your professional advisers if you are in any doubt as to the taxation implications of subscribing for, purchasing, holding or disposing of, or dealing in, the Shares or exercising any rights attaching to the Shares. We emphasise that none of our Company, the Joint Global Coordinators, the Joint Bookrunners, the Joint Sponsors, the Joint Lead Managers, the Underwriters, any of our or their respective directors, officers, employees, agents, advisers or representatives or any other person involved in the Global Offering accepts responsibility for any tax effects or liabilities resulting from your subscription, purchase, holding or disposing of, or dealing in, the Shares or your exercise of any rights attaching to the Shares.

INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

HONG KONG SHARE REGISTER AND STAMP DUTY

Our register of members holding Shares will be maintained by our principal share registrar, Royal Bank of Canada Trust Company (Cayman) Limited, in the Cayman Islands, and our register of members holding listed Shares will be maintained by our Hong Kong Share Registrar, Computershare Hong Kong Investor Services Limited, in Hong Kong.

No stamp duty is payable by applicants in the Global Offering. Dealings in the Shares registered in our Hong Kong Share Register will be subject to stamp duty in Hong Kong. The current ad valorem rate of Hong Kong stamp duty is 0.1% on the higher of the consideration for or the market value of the Shares and it is charged on the purchaser on every purchase and on the vendor on every sale of the Shares. In other words, a total stamp duty of 0.2% is currently payable on a typical sale and purchase transaction involving the Shares.

SHARES WILL BE ELIGIBLE FOR ADMISSION INTO CCASS

Subject to the granting of the listing of, and permission to deal in, the Shares on the Stock Exchange and our compliance 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 as determined by HKSCC. Settlement of transactions between participants of the Stock Exchange is required to take place in CCASS on the second Business Day after any trading day. All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time. Investors should seek the advice of their stockbroker or other professional advisor for details of the settlement arrangements as such arrangements may affect their rights and interests. All necessary arrangements have been made for the Shares to be admitted into CCASS.

PROCEDURE FOR APPLICATION FOR THE PUBLIC OFFER SHARES

The procedures for applying for the Public Offer Shares are set out in the section headed “How to Apply for the Public Offer Shares” in this prospectus and on the relevant Application Forms.

STRUCTURE OF THE GLOBAL OFFERING

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

OVER-ALLOTMENT AND STABILISATION

Details of the arrangements relating to the Over-allotment Option and stabilisation are set out in the section headed “Structure of the Global Offering” in this prospectus.

OTHER

If there is any inconsistency between this prospectus and the Chinese translation of this prospectus, this prospectus shall prevail. Names of any laws and regulations, governmental authorities, institutions, natural persons or other entities (including certain of our subsidiaries) which have been translated into English and included in this prospectus and for which no official English translation exists are unofficial translations for your reference only.

INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

Unless otherwise specified, amounts denominated in RMB and US\$ have been translated, for the purpose of illustration only, into HK dollars or US\$ in this prospectus at the following exchange rates: HK\$1.00: RMB0.7949 and US\$1.00: HK\$7.7524. No representation is made that any amounts in RMB or US\$ were or could have been or could be converted into HK dollars or US\$ at such rates or any other exchange rates on such date or any other date.

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

Unless otherwise specified, all references to any shareholdings in our Company following the completion of the Global Offering assume that the Over-allotment Option is not exercised.

DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

DIRECTORS

Name	Address	Nationality
<i>Executive Directors</i>		
Zhao Juanxian (alias, Zhao Junxian) (趙雋賢)	Building 65 65 Long Ning Road Yu Bei District Chongqing the PRC	Chinese
Zhang Weizhong (張為眾)	No. 3, 10th Floor No. 4 Xia Chun Yang Dong Street Yu Zhong District Chongqing the PRC	Chinese
Liu Zhiwei (劉志偉)	Room 502, Unit 1 Jia Qu Building 3 Yu Xing Yuan Cai Yu Town Daxing District Beijing the PRC	Chinese
Gu Weiping (顧衛平)	Room 3, 8th Floor Block 2 No. 6-1 Xin Nan Road Yu Bei District Chongqing the PRC	Chinese
Wang Litong (王立彤)	No. 101, No. 13 Jinshanli Zijinshan Road Hexi District Tianjin the PRC	Chinese
<i>Non-executive Director</i>		
Zhuang Ping (莊平)	Room 301, No. 5 Building Lane 1277 Changning Road Shanghai the PRC	The United States

DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

Name	Address	Nationality
<i>Independent non-executive Directors</i>		
Tsui Yiu Wa Alec (徐耀華)	House No. 8 Villa De la Golfe G-2/F, 268/Block 8 DD 100 Lot 1680B Ying Pun, Villa De La Golfe Sheung Shui Hong Kong	Chinese
Yuan Shaoli (袁紹理)	No. 502, Unit One No. 12 Building No. 14 East Chang'an Avenue Dongcheng District Beijing the PRC	Chinese
Song Qianwu (宋乾武)	Room 403, Block 32 No. 1 Ma Shen Miao Hai Dian District Beijing the PRC	Chinese

SENIOR MANAGEMENT

Name	Address	Nationality
Li Gang (李剛)	No. 2 Zhangba East Road Yanta District Xi'an the PRC	Chinese
Liang Zuping (梁祖平)	No. 3-2, No. 10 Yang He Si Village Jiangbei District Chongqing the PRC	Chinese

For further details in relation to our Directors and senior management, please refer to the section headed "Directors and Senior Management" in this prospectus.

DIRECTORS AND PARTIES INVOLVED IN THE GLOBAL OFFERING

PARTIES INVOLVED IN THE GLOBAL OFFERING

Joint Global Coordinators and Joint Sponsors

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Legal advisers to our Company

As to Hong Kong law and US law:

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As to PRC law:

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Beijing
the PRC

As to Cayman Islands law:

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and the Underwriters**

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Auditors and reporting accountants

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Receiving bank	Industrial and Commercial Bank of China (Asia) Limited 33/F, ICBC Tower 3 Garden Road Central Hong Kong
Compliance adviser	TC Capital Asia Limited Suite 1904 19/F Tower 6 The Gateway Harbour City Kowloon Hong Kong

CORPORATE INFORMATION

Registered office	Cricket Square Hutchins Drive P.O. Box 2681 Grand Cayman KY1-1111 Cayman Islands
Principal place of business in Hong Kong	Room 2204, 22/F. Fu Fai Commercial Centre 27 Hillier Street Hong Kong
Headquarter and place of business in the PRC	No. 72 Avenue of Stars High-Tech Park North New Zone Chongqing the PRC
Company's website	http://www.kangdaep.com <i>(The information on the website does not form part of this prospectus)</i>
Company secretary	Chan Yin Wah <i>(FCIS, FCS, FCCA)</i> 18/F, Tesbury Centre 28 Queen's Road East Wanchai Hong Kong
Authorised representatives	Zhang Weizhong No. 4 Xia Chun Yang Dong Street Yu Zhong District Chongqing the PRC Liu Zhiwei Room 502, Unit 1 Jia Qu Building 3 Yu Xing Yuan Cai Yu Town Daxing District Beijing the PRC
Audit committee	Mr. Tsui Yiu Wa Alec <i>(Chairman)</i> Mr. Yuan Shaoli Mr. Song Qianwu

CORPORATE INFORMATION

Remuneration committee

Mr. Yuan Shaoli (*Chairman*)
Mr. Song Qianwu
Mr. Gu Weiping

Nomination committee

Mr. Zhao Juanxian (*Chairman*)
Mr. Zhang Weizhong
Mr. Tsui Yiu Wa Alec
Mr. Yuan Shaoli
Mr. Song Qianwu

Principal banks

Industrial and Commercial Bank of China
Chongqing Branch
Hitech Sub-branch
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Chongqing Rural Commercial Bank
No. 10, East Yanghe Road
Jiangbei District
Chongqing
the PRC

China Merchants Bank
Chongqing Branch
Floor 1, Block Saturn A1
No. 88, Avenue of Stars
Northern New District
Chongqing
the PRC

Shanghai Pudong Development Bank
Northern New District Sub-Branch
North Gate Tianyi New Town
No. 307, New South Road
New Paifang
Yubei District
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the PRC

CORPORATE INFORMATION

China CITIC Bank
Chongqing Branch
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**Cayman Islands share registrar
and transfer office**

Royal Bank of Canada Trust
Company (Cayman) Limited
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Royal Bank House
24 Shedden Road
George Town
Grand Cayman KY1-1110
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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

INDUSTRY OVERVIEW

This section contains information and statistics relating to the PRC economy and the industry in which we operate. We have derived such information and data partly from publicly available government and other third-party sources, which have not been independently verified by us, the Joint Sponsors, Joint Bookrunners and Joint Lead Managers, any of the Underwriters, any of our or their respective directors, officers, representatives or affiliates, or any other party involved in the Global Offering and no representation is given as to its accuracy. Our Directors have taken reasonable care in the reproduction of such information, which may not be consistent with other information compiled within or outside the PRC. We commissioned Frost & Sullivan, an independent market research firm, as an industry consultant to prepare an industry research report (the “Frost & Sullivan Report”). We believe that the sources of the information in this section are appropriate sources for such information and have taken reasonable care in extracting and reproducing such information. We have no reason to believe that such information is false or misleading or that any part has been omitted that would render such information false or misleading.

OVERVIEW OF THE ENVIRONMENTAL PROTECTION INDUSTRY IN CHINA

Investment in the environmental protection industry, which includes pollution and emission reduction and control, has experienced rapid growth in the past few years as the PRC Government and society have become increasingly aware of the importance of environmental protection.

The PRC Government has identified the environmental protection industry as a strategic industry for long-term development. As the public expectation of environmental quality continues to rise, investment in the environmental protection industry is expected to grow rapidly in the near future. Total investment in the environmental protection industry in the 12th Five-Year Plan period is expected to reach RMB3.4 trillion, which is likely to be nearly twice the amount invested in the 11th Five-Year Plan period, and is estimated to reach 2% of China’s GDP by the end of the 12th Five-Year Plan period. According to Frost & Sullivan, the environmental protection industry in China is expected to continue to expand in the near future, and investment in wastewater treatment, as an important part of environmental protection, is also expected to increase.

OVERVIEW OF CHINA’S WATER SECTOR

Water resources in China

According to Frost & Sullivan, China is one of the 13 most water-deficient countries in the world. In 2011, China’s average freshwater per capita was 1,730 m³, which was less than one-third of the global average. In recent years, total water resources in China decreased from approximately 3.1 trillion m³ in 2010 to 2.8 trillion m³ in 2013. On a per capita basis, China’s water resources decreased from 2,310.4 m³ in 2010 to 2,047.4 m³ in 2013. In addition, water resources are unevenly distributed in China, which further exacerbates China’s water shortage. Several provinces in China face extreme water scarcity, which is defined by the United Nations Statistics Bureau as an average annual freshwater per capita of less than 500 m³.

Pollution has further aggravated China’s water shortage. Even in regions of China where water is relatively abundant, water scarcity is common because of widespread pollution. According to the MEP, groundwater pollution is becoming increasingly severe. From 2011 to 2013, the total proportion of groundwater rated in the “bad” and “very bad” categories rose from 55.0% to 59.6%.

INDUSTRY OVERVIEW

Water consumption in China

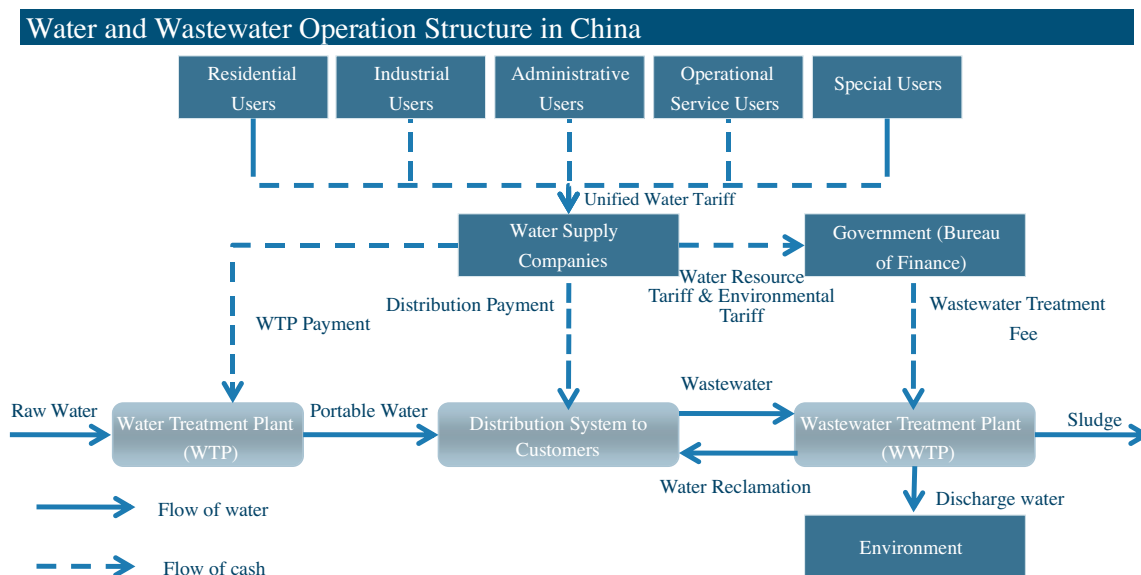
While water resources in China have been declining, the demand for water has increased. Total water consumption rose from 591.0 billion m³ in 2008 to 617.0 billion m³ in 2013. The per capita consumption of water in China rose from 446.2 m³ in 2008 to 453.0 m³ in 2013.

Urbanisation is one of the factors that contribute to the increased per capita consumption of water. According to Frost & Sullivan, China's urban population grew by 17.2% from 624.0 million in 2008 to 731.1 million in 2013. In the same period, China's urbanisation rate increased by 6.7% from 47.0% to 53.7%. As a result, the consumption of water in urban areas has also increased. Frost & Sullivan estimates that China's urban population will likely reach 791.5 million by 2016, representing a CAGR of 2.7% from 2013 to 2016, and that China's urbanisation rate will reach 57.3% by 2016. As this urbanisation trend continues, it is likely to lead to an increase in demand for clean water and wastewater treatment in urban areas, which in turn increases the growth potential of the wastewater treatment industry.

Meanwhile, industrial usage of water is also on the rise in recent years. Industrial water usage increased from 139.7 billion m³ in 2008 to 142.4 billion m³ in 2012, according to Frost & Sullivan. At the same time, there is a need to enhance the efficiency of industrial water usage in China.

Structure of China's water market

The water industry in the PRC is comprised of three main types of operators: water treatment plants (WTPs), water supply companies and wastewater treatment plants (WWTPs). Urban customers pay a unified water tariff, which is made up of the water resource tariff, the environmental tariff, the water supply tariff, and the infrastructure tariff, to the water supply companies. The water supply companies retain the water supply tariff and the infrastructure tariff, with the remainder of the unified water tariff being distributed to local governments. The local governments or authorised departments then allocate a portion of the unified water tariff received, plus a certain amount of funding from municipal authorities, which is known as the wastewater treatment fee in aggregate, to WWTPs or their relevant operating entities.

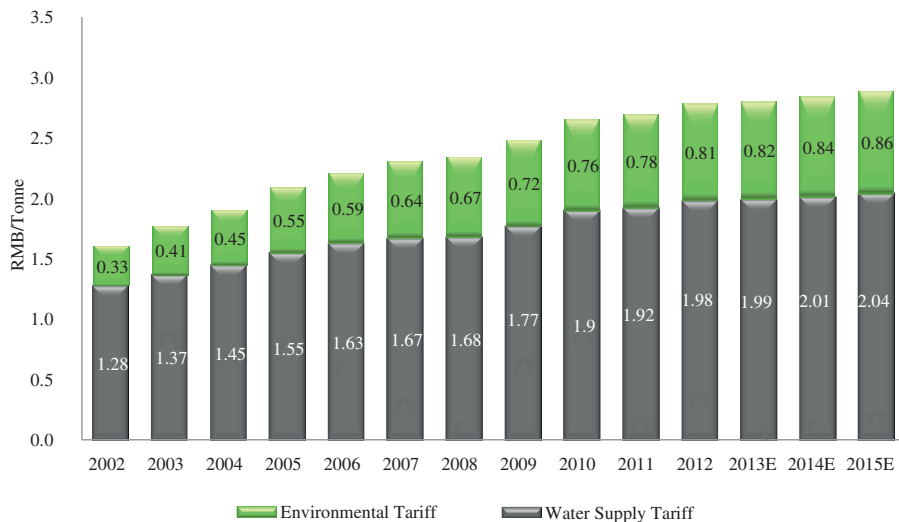


Source: State Council, *H₂O China*, Frost & Sullivan

INDUSTRY OVERVIEW

In recent decades, China has gradually undergone market reform in the face of increasing water resource scarcity, rising costs of electricity and raw materials and stringent water supply and discharge standards. As a result, the unified water tariff for residential users has been facing inflationary pressure in recent years.

The water supply tariff and environmental tariff are two of the components of the unified water tariff. As the PRC Government raises the wastewater discharge standards, the environmental tariff is expected to further increase at a speed exceeding the growth rate of the water supply tariff. According to Frost & Sullivan, the CAGR of the environmental tariff between 2002 and 2015 is estimated to be 7.6%, which is more than twice the CAGR of the water supply tariff for the same period. The diagram below illustrates the historical and forecasted average water supply tariff and environmental tariff between 2002 - 2015.



Source: H₂O China, Frost & Sullivan

OVERVIEW OF CHINA'S WASTEWATER TREATMENT INDUSTRY

According to Frost & Sullivan, China's municipal wastewater treatment industry is at a stage of rapid development, as evidenced by the continuous improvement of infrastructure, opening up to market capital, promotion of efficiency and further enhancement of discharge standards.

Strategies and goals for the wastewater treatment sector in the 12th Five-Year Plan

The PRC Government has indicated that there will be significant investment in the wastewater treatment sector in its 12th Five-Year Plan. The 12th Five-Year Plan of China's Municipal Wastewater Treatment and Recycling Facilities Construction (the "Wastewater Plan"), announced by the State Council General Office in April 2012, provides key tasks for urban wastewater treatment, including comprehensively enhancing wastewater treatment capacity, accelerating the upgrade of wastewater treatment plants, strengthening the construction of sludge treatment and disposal facilities, promoting

INDUSTRY OVERVIEW

the use of recycled water and strengthening the management of facility operations. The PRC Government plans to invest an aggregate amount of approximately RMB430.0 billion in wastewater treatment, recycling and reuse, including RMB427.1 billion in the construction of wastewater treatment infrastructure and RMB2.7 billion in improving management of treatment facilities. Investment in infrastructure includes RMB244.3 billion for the improvement and construction of new pipe networks, RMB104.0 billion for the construction of new municipal wastewater treatment facilities, RMB13.7 billion for the upgrade of municipal wastewater treatment plants, RMB34.7 billion for sludge treatment and disposal and RMB30.4 billion for the construction of wastewater recycling facilities.

Increase of wastewater discharge in China

Along with the increased usage of water, the volume of wastewater discharged in the PRC has increased steadily in the last few years. According to Frost & Sullivan, the total volume of wastewater discharged in the PRC increased from 53.7 billion tonnes in 2006 to 68.4 billion tonnes in 2012 and is expected to reach 74.5 billion tonnes by the end of 2015. Urban sewage discharge, as a proportion of total wastewater discharge, has also grown steadily. The proportion of urban sewage discharge increased from 55.3% of total wastewater discharge in 2006 to 67.6% in 2012 and is expected to reach 72.4% by 2015, according to Frost & Sullivan.



Source: MEP, MOHURD, State Council, Frost & Sullivan

The forecast above is made with consideration given to the fast-paced urbanisation processes, especially in small- and medium-sized cities and counties, which increase urban sewage discharge in these cities and are the key driving forces for municipal wastewater treatment market in China.

Municipal wastewater treatment capacity in China

The total treatment capacity of municipal wastewater treatment plants in the PRC has been increasing over the last few years. According to Frost & Sullivan, the total treatment capacity of municipal wastewater treatment plants in China has increased from 88.4 million m³ per day in 2008 to 148.0 million m³ per day in 2013.

INDUSTRY OVERVIEW

According to China's goal set out in the Wastewater Plan, the total treatment capacity of municipal wastewater treatment plants in operation in China is expected to further increase to 170.5 million m³ per day in 2015. During the same period, municipal wastewater treatment capacity of 26.1 million m³ per day will be upgraded and refurbished, of which 78.1% will be used for cities and 21.9% for counties and towns. The diagram below shows the historical and forecasted treatment capacity of municipal wastewater treatment plants in China:



Source: State Council, National Bureau of Statistics of China, MOHURD, Frost & Sullivan

Current and targeted wastewater treatment ratio

The overall municipal wastewater treatment rate in cities reached 82.3% by the end of 11th Five-Year Plan period, whereas the treatment rate in counties was 60.1%. The growth of newly-built treatment capacity in cities is expected to slow down, especially in the developed regions, like coastal areas. According to Discharge Standard of Pollutants for Municipal Wastewater Treatment Plant (GB18918) effective since July 2003, the highest standard for treated wastewater is Class I Standard A, followed by Class I Standard B and below. With possible upgrade of discharge standard of pollutants for municipal wastewater treatment plants from Class I Standard B or lower to Class I Standard A, the upgrading and renovation of existing wastewater treatment plants is predicted to be a major driver of the industry. Under the Wastewater Plan, China's municipal wastewater treatment rate in urban areas will reach approximately 85.0% in 2015. Compared to large-sized cities, the total municipal wastewater treatment capacity of counties is expected to expand by about 50.0% during the 12th Five-Year Plan period. The State Council aims to raise the wastewater treatment ratio in counties to over 70.0% by 2015.

Operating models in China's wastewater treatment industry

There are several operating models widely adopted in the wastewater treatment industry:

BOT Model — A form of project financing, wherein a private entity receives a concession from the public sector to finance, design, construct and operate a facility stated in the concession contract. Upon the expiry of the concession arrangement, investors return the project to the Government or its designee. During the concession period (usually 20 to 30 years), the concessionaire receives regular payments from local government to recover its costs as well as to make a reasonable profit.

INDUSTRY OVERVIEW

TOT Model — Government or its designee grants a concession right to operate a facility to the concessionaire for a certain amount of consideration. The concessionaire then recovers the full investment and gets a reasonable return through operation of the facility in the concession period. Upon the expiry of the concession arrangement, the concessionaire returns the project to the government or its designee.

Build, Own and Operate (“BOO” Model) — The contractor constructs and operates an industrial project based on the concession conferred by the government without handing over the project to the public sector.

O&M Model — Clients delegate the wastewater treatment projects whose construction has been completed or nearly completed to third-party professional wastewater treatment operators for operation and maintenance by paying the corresponding operating expenses.

Others — The other operating models include Design, Build and Operate (DBO) and Public-Private Partnership (PPP).

In recent years, the BOT and TOT models, together referred to as the service concession arrangement model, have been widely implemented in the PRC. Companies that utilise the service concession arrangement model are usually companies with the capability of providing investment, financing, engineering, construction, operation and maintenance services, and are thus positioned as both investment and operation service providers. Companies that utilise BOO model are also considered investment and operation service providers. The main differences between the service concession arrangement model and the BOO model are the accounting treatment applied and the identity of the counterparty.

According to Frost & Sullivan, the market share of service concession arrangement model was 82.2%, compared to 17.4% and 0.4% for O&M model and BOO model, respectively, in terms of daily wastewater treatment capacity operated by privately-owned companies in the PRC (please refer to “— Competitive Landscape” for definition).

The service concession arrangement model holds several advantages over other models in terms of operation efficiency and customer satisfaction, including but not limited to the following:

- Reducing operating cost and raising efficiency through professional services;
- Releasing the burden on public budget for infrastructure development; and
- Stable cash flow to the operator backed by water tariffs and government funding.

INDUSTRY OVERVIEW

Wastewater treatment technologies

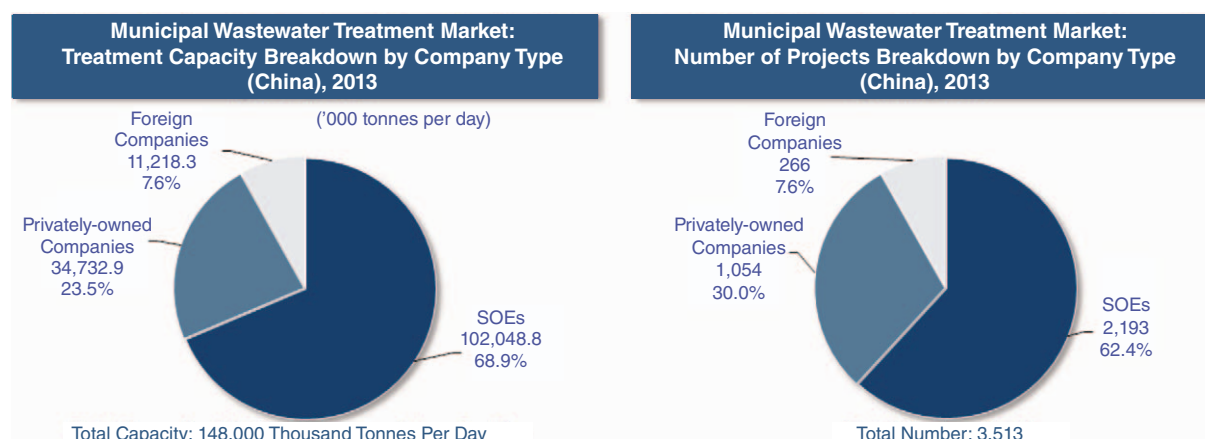
Wastewater treatment involves physical, chemical and biological processes to remove suspended substances and reduce COD, BOD, phosphorus and nitrogen levels. The first stage of treatment usually involves a physical process that includes settling. The second stage involves biological treatment, where the activated sludge process and other technologies are introduced to reduce COD and BOD levels. The third stage involves advanced treatment, which may include phosphorus and nitrogen removal, coagulating sedimentation, sand filtration, carbon absorption and other technologies.

In China, biological treatment technologies currently make up more than 90% of all methods for municipal wastewater treatment, with the remainder being physical, chemical and physical-chemical treatments. Biological treatment normally comprises following five types of major technologies: (i) activated sludge process, (ii) oxidation ditch, (iii) A/O, (iv) A2/O and (v) sequencing batch reactor activated sludge process (SBR). The activated sludge process is the main method for wastewater treatment, while the other four technologies represent upgrades to the traditional activated sludge process.

Competitive Landscape

According to Frost & Sullivan, China’s wastewater treatment industry is fragmented and still experiencing high-growth and is expected to remain in this stage until 2020. There are currently three main groups of participants in the PRC municipal wastewater treatment industry: (i) state-owned enterprises (the “SOEs”), (ii) privately-owned companies, i.e. companies which are owned by non-state-owned enterprises or individuals and a majority of whose operations focus on the PRC market, irrespective of its place of incorporation, according to Frost & Sullivan, and (iii) foreign companies. The PRC wastewater treatment industry is currently dominated by the SOEs.

The diagrams below show breakdowns of treatment capacity and number of projects by company type.



Note:

1. Figures are based on the data of the projects that are in operation, excluding projects under construction.
2. Treatment capacity refers to the scale of construction approved by MOHURD.

Source: MOHURD, Frost & Sullivan

INDUSTRY OVERVIEW

Privately-owned companies have gradually gained market share in the PRC wastewater treatment industry since 2000 as a result of their initiative and their flexibility in business development and bidding for projects. Furthermore, the operational efficiency and strong adaptability of privately-owned companies, which are made possible by their extensive technical know-how, are also factors contributing to the growth in their market share. According to Frost & Sullivan, privatisation of the wastewater treatment industry has progressed significantly over the last decade and there is still room for further growth. For instance, in 2013, although almost one third of municipal wastewater treatment projects were operated by privately-owned companies, most of these projects were located in second and third-tier cities and were in small size in terms of treatment capacity. As a result, privately-owned companies only accounted for 23.5% of daily treatment capacity in 2013.

The privately-owned sector of the municipal wastewater treatment market is extremely fragmented. According to Frost & Sullivan, as at 31 December 2013, only 20.1% of the privately-owned wastewater treatment projects were operated by the top five privately-owned investment and operation service providers in terms of treatment capacity in operation. The table below shows the ranking of the top five privately-owned investment and operation service providers in terms of treatment capacity in operation and total treatment capacity as at 31 December 2013.

Top 5 Privately-owned Investment and Operation Service Providers by daily treatment capacity in operation (China), 2013

Ranking	Company	Treatment Capacity ('000 tonnes/day)
1	Chongqing Kangda	1,390.0
2	Guozhen Environmental	1,201.0
3	Sound Global	1,179.9
4	Pengyao Group	992.0
5	GSEGC	965.8

Top 5 Privately-owned Investment and Operation Service Providers by daily treatment capacity in and pending operation (China), 2013

Ranking	Company	Treatment Capacity ('000 tonnes/day)
1	Chongqing Kangda	1,897.0
2	Sound Global	1,622.3
3	Guozhen Environmental	1,219.0
4	GSEGC	1,079.8
5	Pengyao Group	1,042.0

Note:

- To attain these rankings, Frost & Sullivan used data disclosed by the respective companies, which were confirmed through firsthand interviews with the companies.

Source: Chongqing Kangda, Pengyao Group, Guozhen Environmental, Sound Global, Frost & Sullivan

Industry entry barriers

Industry performance and credibility

Improper operation of a wastewater treatment plant has significant repercussions for key stakeholders, such as government bodies, and poses a serious health threat to local residents. Project owners are therefore more likely to choose a project developer with the required certificates, broader experience, a better track record and stronger market reputation in order to mitigate the risks.

INDUSTRY OVERVIEW

Design and operational capabilities

Operators in the wastewater treatment industry are required to obtain proper certification due to the strict requirements that govern the quality of wastewater treated by wastewater treatment plants. New entrants usually have trouble competing with existing operators because they do not have the experience necessary to obtain operating certificates. For example, according to Frost & Sullivan, a company must have operated one project with daily water treatment volume of over 10,000 tonnes or two projects with daily water treatment volume of over 5,000 tonnes each in order to obtain a Class A certificate for operating a municipal wastewater treatment plant.

Availability of capital

The municipal wastewater treatment industry requires intensive capital investment due to factors inherent to the industry, such as the high capital requirements associated with obtaining professional operating certificates. New entrants may therefore have trouble obtaining the necessary financing to cover the initial investment.

End user's regional preference

Local governments, which are often the grantor of the concession to operate wastewater treatment projects, tend to prefer engaging companies with whom they have previously collaborated. This strong preference poses a barrier for new entrants, especially foreign enterprises.

INDUSTRY OUTLOOK AND KEY DRIVERS

Increasing demand for municipal wastewater treatment capacity

Total wastewater discharge in China has been increasing gradually due to continuous economic development and urbanisation. The growth in urban sewage discharge in turn increases the demand for municipal wastewater treatment capacity. The growth of water intensive industries, such as power generation, is also expected to provide opportunities for the development of the wastewater treatment market, as these industries put further pressure on scarce water resources.

Government investment and government policies

The 12th Five-Year Plan for Energy Saving and Environmental Protection issued by the State Council in June 2012 placed unprecedented emphasis on the wastewater treatment industry. The 12th Five-Year Plan points out that the operations of municipal wastewater treatment, waste management and desulfurisation and denitrification facilities must basically become professional and market driven during the period of the 12th Five-Year Plan. Meanwhile, in line with the privatisation of the wastewater treatment industry during the last seven years, the government is expected to continue to encourage the participation of private companies in the development of public utilities.

INDUSTRY OVERVIEW

Stricter water quality standards

The PRC Government's discharge standards for water pollutants have risen steadily over the years, which is likely to lead to the development of new technologies and advanced wastewater treatment techniques. China's discharge standards are less stringent than standards in developed countries, such as the United States. According to Frost & Sullivan, the gap between Chinese standards and those of developed countries indicates that China is likely to further strengthen its discharge standards in the future, which in turn will likely lead to strengthened demand for more and better wastewater treatment services.

Development of Wastewater Treatment in Small to Medium-sized Cities and Counties

During the 12th Five-Year Plan period, China is forecasted to continue its focus on developing municipal wastewater treatment facilities in small to medium-sized cities. According to MOHURD, as at December 2013, 99.1% of cities in the PRC had built municipal wastewater treatment facilities, but nearly 20% of counties and towns, which will gradually grow into small- to medium-sized cities, did not have such facilities. According to Frost & Sullivan, the overall penetration rate and coverage of China's municipal wastewater treatment will likely increase in small- to medium-sized cities, and extensive development will take place in both China's urbanisation and municipal wastewater treatment industry.

Future trends

According to Frost & Sullivan, the wastewater treatment industry in China is likely to experience three major trends in the near future: (i) increasing municipal wastewater treatment capacity in small- to medium-sized cities and counties, (ii) industry consolidation and (iii) increasing water reuse and reclamation. It is expected that there will be an increase in the number of municipal wastewater treatment plants constructed in small- and medium-sized cities and counties. The construction of new facilities in small- and medium-sized cities and counties will expand the coverage of municipal wastewater treatment plants and better ensure that the capacity of municipal wastewater treatment will be able to keep up with the PRC's rate of urbanisation. In addition, according to Frost & Sullivan, the wastewater treatment industry is currently in a stage of "operation and productivity expansion". At such stage, construction of pipeline networks and newly-built capacity lead to the improvement of wastewater treatment volume, while project investment increment and marketisation mainly benefit operating efficiency. Frost & Sullivan predicts that wastewater treatment companies will benefit from such expansion in the future and speed up the pace of expansion.

REPORT COMMISSIONED FROM FROST & SULLIVAN

We commissioned Frost & Sullivan to conduct analysis of the PRC water treatment industry, the wastewater treatment market and other economic data and to prepare the Frost & Sullivan Report. We have agreed to pay a fee of approximately RMB0.9 million for the Frost & Sullivan Report, which will be fully paid prior to the Listing. Our Directors are of the view that the payment of the fee does not affect the fairness of the conclusions drawn in the Frost & Sullivan Report. Frost & Sullivan is an independent consultant founded in 1961 and has over 40 global offices with more than 1,800 industry consultants, market research analysts, technology analysts and economists. Its services include

INDUSTRY OVERVIEW

technology research, market research, economic research, corporate best practices advising, training, customer research, competitive intelligence and corporate strategy. The Frost & Sullivan Report includes both historical and forecast information on the PRC water treatment industry, wastewater treatment market and other economic data. Frost & Sullivan undertook both primary and secondary independent research through various sources within the PRC water treatment industry and wastewater treatment market. Primary research involved interviewing leading industry participants. Secondary research involved reviewing company reports, independent research reports and data based on Frost & Sullivan's own research database.

Frost & Sullivan built its report on the following bases and assumptions:

- China's social, economic, and political environment is believed to remain stable in the forecast period, which should ensure the stable development of environmental protection as well as the water industry in China;
- The Chinese government is paying more attention to environmental protection and the water industry under the 12th Five-Year Plan. The government's attitude towards these industries is likely to remain positive in the forecast period. The planned framework and outline for each segment are assumed to be realised as of 2015, per relevant regulations;
- The water situation in China is predicted to remain at the present level, or water resources are getting more scarce in the future, bringing about opportunities for wastewater treatment, water reclamation and others; and
- Investment in the wastewater treatment market is expected to follow the trend in the 11th Five-Year Plan period. In the first two years, the investments are conservative due to the lack of explicit policies. With the advance of governments support and detailed policies, the market is expected to experience strong development in 2014 and 2015.

The research results may be affected by the accuracy of these assumptions and the choice of these parameters.

All statistics are reliable and are based on information available as of the date of the Frost & Sullivan Report. Other sources of information, which include the government, trade associations or market place participants, may have provided some of the information on which the analysis or data is based. Frost & Sullivan's forecast data comes from a seven-step system that integrates several forecasting techniques and uses a measurement-based market engineering system to maximise the credibility and accuracy of its forecasts.

Our Directors, after taking reasonable care, confirm that there is no adverse change in the market information since the date of the Frost & Sullivan Report.

REGULATIONS

OVERVIEW

We offer our customers, who are principally municipal, district or county level governments in China or their designees, customised and integrated wastewater treatment solutions and services mainly through service concession arrangements, such as BOT projects and TOT projects. Our business is subject to relevant laws, regulations and policies of China and is under supervision of government authorities in the PRC. Our business operations in China are subject to the laws and regulations regarding concession arrangements in wastewater treatment projects, environmental protection and labour protection. Any violation of those laws and regulations may have an adverse impact on our business operation and future development.

REGULATORY ENVIRONMENT

According to the Catalogue of Industries for Guiding Foreign Investment (2011 Revision)* (《外商投資產業指導目錄(2011年修訂)》) promulgated by the MOFCOM and the NDRC, the wastewater treatment service industry 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 territory of the PRC by means of the establishment of a joint venture or a wholly foreign owned enterprise.

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 6 April 1996, and 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 MOHURD on 20 May 1997, 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 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 23 August 1996, the Opinion on Utilizing Foreign Funds in the Construction of Municipal Public Utilities (For Trial Implementations)* (《關於城市市政公用設施建設利用外資工作的意見(試行)》) promulgated and implemented by the Ministry of Construction on 20 May 1997, 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 MOHURD

REGULATIONS

and the MEP on 10 September 2002, and the Notice of the State Council on Adjusting the Proportions of Capital Fund in Fixed Asset Investment Projects* (《國務院關於調整固定資產投資項目資本金比例的通知》) promulgated and implemented by the State Council on 25 May 2009, the capital fund system is adopted in fixed asset investment projects.

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

CONCESSION ARRANGEMENT IN WASTEWATER TREATMENT PROJECTS

Pursuant to the Government Procurement Law, government procurement may be conducted in the form of public bidding, competitive negotiation or other mandatory methods. Although public bidding is generally deemed as the primary method for government procurement, services and/or constructions are allowed to be procured by the government through competitive negotiation in accordance with the Government Procurement Law in any one of the following scenarios : (i) after conducting public bidding, no supplier has submitted a tender, or no eligible tender is presented or no re-bidding is achieved; (ii) detailed specifications or specific requirements cannot be determined as a result of complex technologies or special nature; (iii) the time required for conducting public bidding cannot meet the urgent demand of the users of the relevant services and/or constructions; or (iv) the total price of the services and/or construction cannot be determined prior to conducting public bidding. According to the Tender Measures, government authorities are required to select investors and operators of wastewater treatment projects through public bidding and enter into concession agreements to grant concession rights to service concession providers for municipal public utilities projects. According to the Bidding and Tendering Law of the PRC* (《中華人民共和國招標投標法》) adopted by the NPC Standing Committee on 30 August 1999 and implemented on 1 January 2000, the public tender process is as follows:

- (i) Where a local government adopts public tender method to procure service and/or construction, it is required to make an announcement for tender, which is to be published in newspapers, information networks or other medium as are designated by the relevant governments.
- (ii) A local government may, based on the specific requirements of the project, request potential participants to provide certificates or information concerning their competence and business achievements in its public announcement for tender and examine the qualifications of the potential participants. The public announcement for tender shall include, among other things, technical specifications of the project, qualification criteria of tender participants, requirements for bid quotation, tender evaluation criteria and other substantive requirements and terms, as well as the principal clauses of a service concession contract to be executed.

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- (iii) A tender participant is required to prepare its tender documents in accordance with the requirements set forth in the public announcement. A tender evaluation committee will be established by the local government in accordance with law, which will be responsible for evaluating the bids after tender documents are submitted prior to the submission deadline stipulated in the public announcement.

- (iv) As soon as the tender winner is determined, the local government will issue a written notification to the winner and inform all the unsuccessful bidders of the result. The local government and the winner of the tender are required, within 30 days after the notice and subject to obtaining approval from the relevant governments, enter into a written service concession contract based on the terms set forth in the tender documents.

However, there is no explicit legal requirement as to whether the Government Procurement Law or the Measures for the Administration on the Concession of Municipal Public Utilities shall be applied by the local government in connection with its procurement. For further details of our business model under the concession agreement, please refer to the section headed “Business — Our Project Models” of this prospectus.

Terms of Concession Rights and Pricing

According to the Measures for the Administration on the Concession of Municipal Public Utilities and the Notice on Issuing Opinion about Advancing Industrialisation of Urban Sewage and Garbage Treatment by the NDRC, the MOHURD and the MEP* (《國家計委、建設部、國家環保總局關於印發推進城市污水、垃圾處理產業化發展意見的通知》) promulgated and implemented on 10 September 2002, the terms of concession rights for municipal wastewater treatment projects should not exceed 30 years. After the expiration of the term, governments shall re-select the concessionaire by a new public tender process. 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 quality of effluent flowing from municipal wastewater treatment plants should comply with the standards set out in the Discharge Standard of Pollutants for Municipal Wastewater Treatment Plant* (《城鎮污水處理廠污染物排放標準》) (GB18918-2002).

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Government Supervision

According to the Measures for the Administration on the Concession of Municipal Public Utilities and the Opinion of Ministry of Construction on Strengthening the Supervision of Municipal Public Utilities, the government's supervision of concessionaires regarding municipal 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 the product and service provided by the municipal wastewater treatment facility operators and shall monitor the wastewater treatment cost.

B. Mid-term assessment

During the course of the project operation, the authorities in charge of supervising the municipal public utility operators shall organise 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 supervisory authorities may carry out annual assessments.

C. Supervision of material matters

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

D. Termination of the concession agreement

In the event that an enterprise to which concession rights have been granted does any of the following during the concession period, the supervisory authority shall terminate the concession agreement according to relevant regulations and may take over such enterprise temporarily:

- (1) Transfer or lease the concession rights without appropriate authorisation;
- (2) Dispose of or mortgage the assets operated by it without appropriate authorisation;
- (3) Permit to occur any material quality or production safety accident due to poor management;
- (4) Close or shut down the facility without permission, which seriously affects the public interest and safety; and
- (5) Other conduct prohibited by laws and regulations.

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BIDDING AND TENDER

According to the Construction Law of the PRC* (《中華人民共和國建築法》) promulgated by the NPC Standing Committee on 1 November 1997 and implemented on 1 March 1998 which was last amended on 22 April 2011 and with effect from 1 July 2011 and the Bidding and Tendering Law of the PRC* (《中華人民共和國招標投標法》) adopted by the NPC Standing Committee on 30 August 1999 and implemented on 1 January 2000, certain large-scale infrastructure and public utilities projects relating to social and public benefits 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 go through a tender process. A 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 to the project. The Implementation Rules on the Bidding and Tendering Law of the PRC* (《中華人民共和國招標投標法實施條例》) promulgated by the State Council on 20 December 2011 and implemented on 1 February 2012, further provides the specific requirements for supervision and administration of bidding and tendering.

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 (currently the NDRC) on 1 May 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 MOHURD on 1 June 2001 further provide the specific requirements for bidding and tendering. 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 investment 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* (《工程建設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 MEP on 30 April 2012 and implemented on 1 August 2012, the operator of environmental pollution treatment facilities shall apply for the Qualification for Operation of Environmental Pollution Treatment Facilities* (《環境污染治理設施運營資質》) from the competent environmental protection authority and shall conduct the business of operating environmental pollution treatment facilities according to the provisions of the qualification. The qualification for the

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operation of environment pollution treatment facilities are divided into specialised categories such as domestic sewage, industry waste water, dust extraction, desulfurisation, industrial exhaust gas, industrial solid waste (excluding hazardous waste), organic waste, domestic garbage and automatic continuous monitoring. Qualifications for the operation of automatic continuous monitoring facilities are classified into Grade B qualifications and Temporary qualifications, and qualifications for other environmental pollution treatment facilities are classified into Grade A qualifications, Grade B qualifications and Temporary qualifications. In accordance with Decision of the State Council on Cancellation and Delegation of a Batch of Administrative Examination and Approval Items* (《國務院關於取消和下放一批行政審批項目的決定》) which was promulgated and became effective on 28 January 2014, Grade A qualification has been cancelled.

PRC LAWS AND REGULATIONS RELATING TO ENVIRONMENTAL PROTECTION

The PRC laws and regulations on environmental protection include the Environmental Protection Law of the PRC* (《中華人民共和國環境保護法》) which was promulgated and became effective on 26 December 1989 and was last amended on 24 April 2014, and will become effective on 1 January 2015; the Rules on the Administration concerning Environmental Protection of Construction Projects* (《建設項目環境保護管理條例》) promulgated and became effective on 29 November 1998 and the Regulations on Administration concerning the Environmental Protection Acceptance Check on Construction Projects* (《建設項目竣工環境保護驗收管理辦法》) promulgated on 27 December 2001 and became effective on 1 February 2002; the Law of the PRC on the Prevention and Control of Water Pollution* (《中華人民共和國水污染防治法》) revised on 28 February 2008 and became effective on 1 June 2008 and its relevant implementing regulations; the Environmental Impact Assessment Law of the PRC* (《中華人民共和國環境影響評價法》) promulgated on 28 October 2002 and with effect from 1 September 2003; the Rule on Classification for Environmental Impact Assessment of Construction Projects* (《建設項目環境影響評價文件分級審批規定》) promulgated by the MEP of the PRC on 16 January 2009, and with effect from 1 March 2009.

Pursuant to the laws and regulations stated above, an enterprise that discharges and dispenses toxic and hazardous materials including waste water, shall comply with the applicable national and local standards on such materials, as well as report to or register with the applicable environmental protection authority. Failure to comply may result in a warning, an order or a penalty against such enterprise. Before commencing a construction project, an environmental impact assessment report must be submitted by an enterprise to the relevant environmental protection authority for approval. Relevant projects may be put into trial production once they obtain the approval for trial production from relevant authorities. An acceptance inspection by the relevant environmental protection authority is required before a completed project is allowed to commence its commercial operations.

Furthermore, according to the amended Law of the PRC on the Prevention and Control of Water Pollution and its relevant implementing regulations, an enterprise operating centralized treatment facilities of urban sewage shall obtain the Sewage Discharge Permit (排污許可證).

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LAND, PLANNING AND CONSTRUCTION PERMITS

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

According to the Urban and Rural Planning Law of the PRC* (《中華人民共和國城鄉規劃法》) promulgated by the Standing Committee of the National People's Congress on 28 October 2007 and implemented on 1 January 2008, a Construction Land Planning Permit is required for the use of both allocated land and granted land. Construction units or individuals shall also obtain a Construction Work Planning Permit for constructing buildings, structures, roads, pipelines and other construction works within the city or town planning area.

According to the Construction Law of the PRC* (《中華人民共和國建築法》) and the Administrative Regulation of Construction Work Quality* (《建設工程質量管理條例》) promulgated and implemented on 30 January 2000, a construction entity shall, prior to the commencement of a construction project, apply to the competent department of the construction administration of the PRC 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 allowed to waive from such requirements.

LAWS AND REGULATIONS RELATING TO INTELLECTUAL PROPERTY

TRADEMARK

Pursuant to the Trademark Law of the PRC (《中華人民共和國商標法》) (the "Trademark Law"), which was promulgated on 23 August 1982 and became effective on 1 March 1983, and was last amended on 30 August 2013 which became effective on 1 May 2014, the right to exclusive use of a registered trademark shall be limited to trademarks which have been approved for registration and to goods for which the use of trademark has been approved. The period of validity of a registered trademark shall be ten years, counted from the day the registration is approved. According to the Trademark Law, using a trademark that is identical with or similar to a registered trademark in connection with the same or similar goods without the authorisation of the owner of the registered trademark constitutes an infringement of the exclusive right to use a registered trademark. The infringer shall, in accordance with the regulations, undertake to cease the infringement, take remedial action, and pay damages.

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PATENT

Pursuant to the Patent Law of the PRC* (《中華人民共和國專利法》), which was revised on 27 December 2008 and with effect from 1 October 2009, after the grant of the patent right for an invention or utility model, except where otherwise provided for in the Patent Law, no entity or individual may, without the authorisation of the patent owner, exploit the patent, that is, make, use, offer to sell, sell or import the patented product, or use the patented process, or use, offer to sell, sell or import any product which is a direct result of the use of the patented process, for production or business purposes. And after a patent right is granted for a design, no entity or individual shall, without the permission of the patent owner, exploit the patent, that is, for production or business purposes, manufacture, offer to sell, sell, or import any product containing the patented design. Where the infringement of patent is decided, the infringer shall, in accordance with the regulations, undertake to cease the infringement, take remedial action, and pay damages, etc.

DOMAIN NAME

Pursuant to the Measures for the Administration of Internet Domain Names of China* (《中國互聯網絡域名管理辦法》), which was promulgated on 5 November 2004 and with effect from 20 December 2004 “domain name” shall refer to the character mark of hierarchical structure, which identifies and locates a computer on the internet and corresponds to the Internet protocol (IP) address of that computer. And the principle of “first come, first serve” is followed for the domain name registration service. After completing the domain name registration, the applicant becomes the holder of the domain name registered by him/it. Furthermore, the holder shall pay operation fees for registered domain names on schedule. If the domain name holder fails to pay the corresponding fees as required, the original domain name registrar shall write it off and notify the holder of the domain name in written form.

PRC LAWS RELATING TO LABOUR

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

Pursuant to the Social Insurance Law of the PRC, which was promulgated on 28 October 2010 and took effect from 1 July 2011, employees shall participate in basic pension insurance, basic medical insurance, unemployment insurance, work-related injury insurance and maternity insurance schemes. Basic pension, basic medical insurance and unemployment insurance contributions shall be paid by both employers and employees while work-related injury insurance and maternity insurance contributions shall be solely bared by employers.

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

TAXATION

Enterprise Income Tax

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

According to the EIT Law and the Implementation Rules, the income derived 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 Ministry of Finance, the State Administration of Taxation and the NDRC jointly promulgate the Catalogue of Enterprise Income Tax Preference in Environmental Protection and Energy and Water Saving Programs (Trial)* (《環境保護、節能節水項目企業所得稅優惠目錄(試行)》) on 31 December 2009 to specify the conditions and scope of such projects.

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複》) promulgated and implemented by the State Taxation Administration on 14 December 2004, the wastewater treatment service provided by a wastewater treatment enterprise does not fall into the scope of work that should be subject to business tax. Therefore, no business tax will be levied on the wastewater treatment fees received by wastewater treatment service providers.

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Value-Added Tax

According to the Notice on Ministry of Finance and State Taxation Administration Value-Added Tax Policy of Comprehensive Utilisation 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 9 December 2008, the State exempts qualified wastewater treatment enterprises from value-added tax with respect to wastewater treatment service fee gained from wastewater treatment service 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 1 January 2009.

Urban Maintenance and Construction Tax as well as Education Surtax

According to Circular of the State Council on Unifying the System of Urban Maintenance and Construction Tax and Education Surtax Paid by Domestic and Foreign-invested Enterprises and Individuals* (《國務院關於統一內外資企業和個人城市維護建設稅和教育費附加制度的通知》), which was promulgated on 18 October 2010, and with effect from 1 December 2010, the Tentative Regulations of the PRC on Urban Maintenance and Construction Tax* (《中華人民共和國城市維護建設稅暫行條例》) promulgated in 1985 and last amended on 8 January 2011 and the Tentative Provisions on the Collection of Educational Surtax* (《徵收教育費附加的暫行規定》) promulgated on 28 April 1986 and last amended on 8 January 2011 by the State Council shall be applicable to foreign-invested enterprises, foreign enterprises and individual foreigners.

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

In accordance with Tentative Provisions on the Collection of Educational Surtax, all units and individuals who pay consumption tax, value-added tax and business tax shall also be required to pay educational surtax in accordance with these Provisions. The educational surtax rate is 3% of the amount of value-added tax, business tax and consumption tax actually paid by each unit or individual, and the educational surtax shall be paid simultaneously with value-added tax, business tax and consumption tax.

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FOREIGN EXCHANGE REGISTRATION, FOREIGN CURRENCY EXCHANGE AND DIVIDEND DISTRIBUTION

Foreign currency exchange

The principal regulation governing foreign currency exchange in China is the Foreign Exchange Administration Rules of the PRC* (《中華人民共和國外匯管理條例》) (the “Foreign Exchange Administration Rules”) Under these rules, which are last amended and promulgated on 5 August 2008 and with effect from the same date, the Renminbi is generally freely convertible for payments of current account items, such as trade and service-related foreign exchange transactions and dividend payments, but not freely convertible for capital account items, such as capital transfer, direct investment, investment in securities, derivative products or loans unless the prior approval by the competent authorities for the administration of foreign exchange is obtained.

Under the Foreign Exchange Administration Rules, foreign-invested enterprises in the PRC may purchase foreign exchange without the approval of SAFE for paying dividends by providing certain evidencing documents (including board resolutions, tax certificates), or for trade and services-related foreign exchange transactions by providing commercial documents evidencing such transactions. They are also allowed to retain foreign currency to satisfy foreign exchange liabilities.

Dividend distribution

Before the promulgation of the EIT Law, the principal regulations governing the distribution of dividends paid by WFOE include the Wholly Foreign-owned Enterprise Law of the PRC* (《中華人民共和國外資企業法》), the Income Tax Law of the PRC for Foreign-Invested Enterprises and Foreign Enterprises* (《中華人民共和國外商投資企業和外國企業所得稅法》) and their respective implementation regulations.

Under these regulations, wholly foreign-owned enterprises in China may only pay dividends from accumulated after-tax profit, if any, determined in accordance with PRC accounting standards and regulations. Dividends paid to its foreign investors are exempt from withholding tax. However, this exemption provision has been revoked by the EIT Law which prescribes a standard withholding tax rate of 20% on dividends and other China-sourced passive income of non-resident enterprises. The EIT Law and its implementation rules reduced the rate from 20% to 10%, effective from 1 January 2008.

The PRC and the government of Hong Kong SAR signed the Arrangement between the Mainland of the PRC and Hong Kong SAR for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with respect to Taxes on Income* (《內地和香港特別行政區關於對所得稅避免雙重徵稅和防止偷漏稅的安排》) on 21 August 2006 (the “Arrangement”). According to the Arrangement, the withholding tax rate of 5% applies to dividends paid by a PRC company to a Hong Kong resident, provided that such Hong Kong resident directly holds at least 25% of the equity interests of the PRC company. The withholding tax rate of 10% applies to dividends paid by a PRC company to a Hong Kong resident if such Hong Kong resident holds less than 25% of the equity interests of the PRC company.

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Furthermore, pursuant to the Circular of the State Administration of Taxation on Relevant Issues relating to the Implementation of Dividend Clauses in Tax Agreements* (《國家稅務總局關於執行稅收協定股息條款有關問題的通知》), which was promulgated and with effect from 20 February 2009, all of the following conditions should be satisfied simultaneously where the tax payer needs to be entitled to such tax agreement treatment as being taxed at a tax rate specified in the tax agreement for the dividends paid to it by a PRC resident enterprise: (1) the tax resident of the other side who obtains dividends shall, in accordance with the provisions of the tax agreement, be limited to company; (2) the proportions of the total amount of the owner's equities and the voting shares of the PRC resident enterprise directly owned by the tax resident of the other side complies with the prescribed proportions; and (3) the proportion of equities owned by the tax resident of the other side shall, at any time within the successive 12 months before obtaining dividends, comply with the proportion specified in the tax agreement.

In addition, according to the Administrative Measures for Non-resident Enterprises to Enjoy Treatments under Tax Treaties (Trial)* (《非居民享受稅收協定待遇管理辦法(試行)》) (“Administrative Measures”) which was promulgated on 24 August 2009 and came into force on 1 October 2009, where a non-resident enterprise (as defined under the EIT Law) that receives dividends from a PRC resident enterprise wishes to enjoy the favourable tax benefits under the tax treaties, it shall submit an application for approval to the competent tax authority. Unless it is approved, the non-resident enterprise may not enjoy the favourable tax treatments provided in the tax treaties.

HISTORY AND CORPORATE STRUCTURE

OUR HISTORY AND DEVELOPMENT

We offer our customers, who are principally municipal, district or county level governments in China or their designees, customised and integrated wastewater treatment solutions and services mainly through service concession arrangements, such as BOT projects and TOT projects. Our history can be traced back to the establishment of Kangda Group, a limited liability company established in the PRC on 19 July 1996 with Mr. Zhao Juanxian's personal financial resources.

The following illustrates our major business development milestones and achievements:

Month/Year	Event
July 1996	Kangda Group was established as a limited liability company in the PRC.
February 1998	Kangda Group initially obtained the Qualification Certificate for Environmental Pollution Treatment (Class A for wastewater, waste gas and noise)* (環境污染治理證書(廢水, 廢氣, 噪聲, 甲級)) issued by Chongqing Municipal Environmental Protection Bureau for the period from February 1998 to February 2001.
December 1998	Kangda Group undertook a city wastewater treatment plant project in Chongqing Municipal by providing engineering, procurement and construction ("EPC") services to the Beibei District Main City Wastewater Treatment Plant Project. This project won the 2002 Chongqing Bayu Cup Quality Engineering Award.
July 2000	Kangda Group initially obtained the Qualification Certificate for Operation of Environmental Protection Facilities (municipal wastewater)* (環境保護設施運營資質證書(生活污水)), which was approved and issued by MEP for the period from July 2000 to July 2001.
January 2001	Kangda Group obtained ISO9001 International Quality Management Systems Certification for design, construction, installation and service for environmental protection "three wastes" treatment issued by China Classification Society Quality Assurance Ltd.* (中國船級社質量認證公司) for the period from January 2001 to December 2003.
August 2001	Kangda Group obtained Environmental Engineering (wastewater class A) Specialised Design Certificate* (環境工程專項工程設計證書(廢水甲級)) issued by the MOHURD.
From February 2002 to September 2002	Kangda Group won six bids to provide EPC services for municipal wastewater treatment plants in the Three Gorges Reservoir Region of China.

HISTORY AND CORPORATE STRUCTURE

Month/Year	Event
March 2003	Kangda Group entered into a service concession agreement for its first project with BOT model, the Feng County Wastewater Treatment Plant Phase I in Jiangsu province.
October 2003	Kangda Group obtained ISO14001 International Environment Management Standard Certification for design and construction of environmental protection project (treatment of wastewater, waste gas and noise) and operation management of domestic sewage treatment as well as the related environmental management issued by China Classification Society Quality Assurance Ltd. for the period from October 2003 to October 2006.
August 2005	Kangda Group initially obtained the Qualification Certificate for Operation of Environmental Pollution Treatment Facilities (municipal wastewater and industry wastewater Class A)* (環境污染治理設施運營資質證書(生活污水甲級, 工業廢水甲級)) issued by the MEP of the PRC for the period from August 2005 to August 2008.
June 2007	Kangda Group obtained the Municipal Facility Construction Projects General Contracting Qualification Grade A* (市政公用工程施工總承包壹級) issued by the MOHURD.
March 2012	Kangda Group renewed the Qualification Certificate for Operation of Environmental Pollution Treatment Facilities (municipal wastewater Class A)* (環境污染治理設施運營資質證書(生活污水甲級)) issued by the MEP for the period from March 2012 to March 2015.
May 2012	With a view towards financing our rapid business development in the PRC, on 24 May 2012, Kangda Holdings issued and the Investor purchased an exchangeable bond with a principal amount of approximately HK\$737.2 million.
July 2012	Kangda Group renewed the Qualification Certificate for Operation of Environmental Pollution Treatment Facilities (industrial wastewater Class A)* (環境污染治理設施運營資質證書(工業廢水甲級)) issued by the MEP for the period from July 2012 to July 2015.
August 2012	Kangda Group obtained the Certificate of Enterprise Credit Grade, indicating that Kangda Group is rated as AAA credit grade by China Association of Environmental Protection Industry for the period from August 2012 to August 2015.
May 2013	Kangda Group acquired 100% equity interest of Beijing Chang Sheng from Beijing Urban Construction Investment.

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OUR GROUP COMPANIES

As of the Latest Practicable Date, our Group comprised our Company, Kangda Investment, Kangda Hong Kong and 42 PRC subsidiaries. Our Company was incorporated under the laws of the Cayman Islands on 22 August 2011 in anticipation of the Listing and is the holding company of our Group. Kangda Investment and Kangda Hong Kong were incorporated in the BVI and Hong Kong on 23 August 2011 and 2 September 2011, respectively, for the purpose of holding our Company's equity interests in our PRC subsidiaries.

The following entities are the PRC subsidiaries comprising our Group as at the Listing Date:

(1) **Kangda Group**

(i) *Establishment of Kangda Group*

On 19 July 1996, Kangda Group was established as a limited liability company in the PRC and commenced its operation with an initial registered capital of RMB2 million, which was contributed by tangible assets by its shareholders and held as to 12.5% by Chongqing Kangte, 12.5% by Chongqing Kangda Environmental Protection Collaboration Development Company* (重慶市康達環保協作發展公司) ("Kangda Development"), 7.5% by Chongqing Kangda Environmental Protection Equipment Company* (重慶康達環保成套設備公司) ("Kangda Equipment") and 67.5% by 18 other individuals (collectively, the "Individual Shareholders").

- Chongqing Kangte was held as to 64% by Mr. Zhao Juanxian and 36% by other individual shareholders at the time of its establishment. Pursuant to a confirmation letter dated 12 September 1994 signed by the other shareholders, the 36% equity interests in Chongqing Kangte were held by the other individual shareholders on behalf of Mr. Zhao Juanxian.
- Kangda Development was held as to 27% by Mr. Zhao Juanxian and 73% by other individual shareholders at the time of its establishment. Pursuant to a confirmation letter dated 9 March 1994 signed by the other individual shareholders, the 73% equity interests in Kangda Development were held by the other individual shareholders on behalf of Mr. Zhao Juanxian.
- Kangda Equipment was held as to 20% by Mr. Zhao Juanxian and 80% by other individual shareholders at the time of its establishment. Pursuant to a confirmation letter dated 10 April 1994 signed by the other individual shareholders, the 80% equity interests in Kangda Equipment were held by the other individual shareholders on behalf of Mr. Zhao Juanxian.
- Pursuant to a confirmation letter dated 18 May 1996 signed by the Individual Shareholders, the 67.5% equity interests in Kangda Group were held by the Individual Shareholders on behalf of Mr. Zhao Juanxian.

The above shareholding arrangements were entered into mainly to adopt a diversified shareholding structure to facilitate our Group's business development at the time. Our PRC legal advisers, Commerce & Finance Law Offices, are of the view that the respective shareholding arrangements do not violate any relevant PRC laws and regulations and are valid and binding between Mr. Zhao Juanxian and the relevant parties.

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Pursuant to the capital verification report issued by Chongqing Sanxia Audit Firm* (重慶三峽審計師事務所) on 18 July 1996, the registered capital of Kangda Group was fully paid through the contribution of tangible assets as at 18 July 1996.

(ii) *Increases in the registered capital of Kangda Group in 1998*

The registered capital of Kangda Group was increased twice, on 11 February 1998 and 17 November 1998, respectively, and amounted to RMB12 million as at 17 November 1998. After the increase in registered capital on 17 November 1998, the equity interests of Kangda Group were held as to 2.083% by Chongqing Kangte, 2.083% by Kangda Development, 1.250% by Kangda Equipment and approximately 94.584% by the Individual Shareholders. As confirmed by Mr. Zhao Juanxian, all of the aforementioned equity interests were beneficially owned by Mr. Zhao Juanxian.

(iii) *Acquisition of equity interests in Kangda Group by Mr. Gu and Chongqing Kangte*

On 16 November 1999, with a view to further consolidating the equity interests in Kangda Group, Mr. Gu Weiping (顧衛平) (“Mr. Gu”), being one of the Individual Shareholders, instructed by Mr. Zhao Juanxian, acquired 0.792% equity interests in Kangda Group representing part of the equity interests held by one of the Individual Shareholders. For the same reason, on 16 November 1999, Chongqing Kangte entered into an equity transfer agreement with each of Kangda Development, Kangda Equipment and the Individual Shareholders (other than Mr. Gu), pursuant to which Chongqing Kangte acquired 68.75% equity interests in Kangda Group. As there was no change in beneficial ownership of equity interests being transferred, such transfers were made at nil consideration. Immediately after such equity transfers, the equity interests in Kangda Group were held as to approximately 70.833% by Chongqing Kangte and approximately 29.167% by Mr. Gu on behalf of Mr. Zhao Juanxian. At that time, Chongqing Kangte was held as to 64% by Mr. Zhao Juanxian and 36% by other individuals on behalf of Mr. Zhao Juanxian.

(iv) *Increase in the registered capital of Kangda Group in 2000*

On 6 January 2000, the registered capital of Kangda Group was further increased to RMB36 million by way of capital contribution by Chongqing Kangte. Immediately after such increase in registered capital, the equity interests of Kangda Group were held as to 90.2% by Chongqing Kangte and 9.8% by Mr. Gu, on behalf of Mr. Zhao Juanxian. At that time, Chongqing Kangte was held as to 64% by Mr. Zhao Juanxian and 36% by other individuals on behalf of Mr. Zhao Juanxian.

(v) *Transfer of equity interests in Kangda Group by Mr. Gu to Chongqing Kangte, Chongqing Institute, Chuandong Shipyard, Chongqing Second Construction, Chuanyi Plant and Chongqing Second Installation*

In order to introduce investors to Kangda Group to facilitate its business development, on 21 September 2000 and 22 September 2000, Mr. Gu, instructed by Mr. Zhao Juanxian, entered into share transfer agreements with each of Chongqing Kangte, Chongqing Iron and Steel Design and Research Institute* (重慶鋼鐵設計研究院) (“Chongqing Institute”) (also known as China Metallurgical Group Chongqing Iron and Steel Design and Research Institute* (中冶集團重慶鋼鐵設計研究總院) and Cisd Group Co., Ltd.* (中冶賽迪集團有限公司)), State-owned Chuandong Shipyard* (國營川東造船廠)

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(“Chuangdong Shipyard”), Chongqing Second Construction Co., Ltd.* (重慶第二建設有限公司) (“Chongqing Second Construction”), Chongqing Chuanyi Plant Co., Ltd.* (重慶川儀總廠有限公司) (“Chuanyi Plant”) and Chongqing Second Industrial Equipment Installation Company* (重慶第二工業設備安裝公司) (“Chongqing Second Installation”) which was later consolidated into the Chongqing Industrial Equipment Installation Group Co., Ltd.* (重慶工業設備安裝集團有限公司) (“Chongqing Installation Group”) with Chongqing First Industrial Equipment Installation Company* (重慶第一工業設備安裝公司) in January 2002, pursuant to which Mr. Gu transferred his 1.4%, 2.8%, 1.4%, 1.4%, 1.4% and 1.4% equity interests in Kangda Group to Chongqing Kangte, Chongqing Institute, Chuandong Shipyard, Chongqing Second Construction, Chuanyi Plant, Chongqing Second Installation, each of which for a consideration of RMB500,000, RMB1 million, RMB500,000, RMB500,000, RMB500,000 and RMB500,000, respectively. The consideration in respect of each of these equity transfers was determined with reference to the then registered capital of Kangda Group and fully settled on 20 November 2000. Immediately after such equity transfers, the equity interests of Kangda Group were held as to 91.6% by Chongqing Kangte, 2.8% by Chongqing Institute, 1.4% by Chuandong Shipyard, 1.4% by Chongqing Second Construction, 1.4% by Chuanyi Plant and 1.4% by Chongqing Second Installation, respectively. At that time, Chongqing Kangte was held as to 48.72% by Mr. Zhao Juanxian and 51.28% by other individuals on behalf of Mr. Zhao Juanxian. Each of Chuandong Shipyard, Chongqing Second Construction, Chongqing Institute, Chuanyi Plant, Chongqing Second Installation and Chongqing Installation Group is a state-owned enterprise and an Independent Third Party, and engaged in the business of equipment manufacturing, civil construction, engineering design, instrument and meter manufacturing, equipment installation and general contracting of installation works, respectively.

(vi) *Conversion from a limited liability company to a joint stock company and increase in the registered capital of Kangda Group in 2000*

On 27 December 2000, Kangda Group was converted from a limited liability company to a joint stock company. Pursuant to the capital verification report issued by Shenzhen Pengcheng Certified Public Accountants* (深圳鵬城會計師事務所) on 11 December 2000, the net asset value of Kangda Group amounted to approximately RMB36.27 million as at 30 October 2000, representing approximately RMB270,000 more than the then registered capital of Kangda Group. Pursuant to the official reply from Economic Commission of Chongqing Municipal* (重慶市經濟委員會) regarding approval of such conversion dated 8 December 2000, all of the approximately RMB36.27 million was divided into equal shares and issued to Chongqing Kangte, Chongqing Institute, Chuandong Shipyard, Chongqing Second Construction, Chuanyi Plant, and Chongqing Second Installation in proportion to their then capital contribution to Kangda Group. Immediately after such conversion and increase in registered capital, the equity interests of Kangda Group were held as to 91.66% by Chongqing Kangte, 2.78% by Chongqing Institute, 1.39% by Chuandong Shipyard, 1.39% by Chongqing Second Construction, 1.39% by Chuanyi Plant and 1.39% by Chongqing Second Installation. At that time, Chongqing Kangte was held as to 77.78% by Mr. Zhao Juanxian, and 22.22% by other individuals on behalf of Mr. Zhao Juanxian.

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(vii) Increase in the registered capital of Kangda Group in 2002

The registered capital of Kangda Group was further increased by way of capital contributions from Chongqing Kangte, Chongqing Institute, Chuandong Shipyard, Chongqing Second Construction, Chuanyi Plant and Chongqing Second Installation on 31 January 2002, and amounted to RMB45 million after such increases. Immediately after the increase in registered capital, the equity interests of Kangda Group were held as to 91.66% by Chongqing Kangte, 2.78% by Chongqing Institute, 1.39% by Chuandong Shipyard, 1.39% by Chongqing Second Construction, 1.39% by Chuanyi Plant and 1.39% by Chongqing Installation Group (after consolidation of Chongqing Second Installation as mentioned above). At that time, Chongqing Kangte was held as to 77.78% by Mr. Zhao Juanxian and 22.22% by other individuals on behalf of Mr. Zhao Juanxian.

(viii) Transfer of equity interests in Kangda Group by Chuandong Shipyard to Chongqing Kangte

On 28 March 2004, Chuandong Shipyard and Chongqing Kangte entered into an equity transfer agreement, pursuant to which Chuandong Shipyard transferred its 1.39% equity interests in Kangda Group to Chongqing Kangte for a consideration of RMB625,500, which was determined with reference to the then registered capital of Kangda Group and fully settled on 14 June 2004. As far as the Company is aware, the transfer was due to certain own investment considerations of Chuandong Shipyard. Immediately after such equity transfer, the equity interests of Kangda Group were held as to 93.05% by Chongqing Kangte, 2.78% by Chongqing Institute, 1.39% by Chongqing Second Construction, 1.39% by Chuanyi Plant and 1.39% by Chongqing Installation Group. At that time, Chongqing Kangte was held as to 77.78% by Mr. Zhao Juanxian and 22.22% by other individuals on behalf of Mr. Zhao Juanxian.

(ix) Transfer of equity interests in Kangda Group by Chongqing Second Construction to Chongqing Kangte

On 14 December 2004, Chongqing Second Construction and Chongqing Kangte entered into an equity transfer agreement, pursuant to which Chongqing Second Construction transferred its 1.39% equity interests in Kangda Group to Chongqing Kangte for a consideration of RMB625,500, which was determined with reference to the then registered capital of Kangda Group and fully settled on 4 January 2005. As far as the Company is aware, the transfer was due to certain own investment considerations of Chongqing Second Construction. Immediately after such equity transfer, the equity interests in Kangda Group were held as to 94.44% by Chongqing Kangte, 2.78% by Chongqing Institute, 1.39% by Chuanyi Plant and 1.39% by Chongqing Installation Group. At that time, Chongqing Kangte was held as to 77.78% by Mr. Zhao Juanxian and 22.22% by other individuals on behalf of Mr. Zhao Juanxian.

(x) Increase in the registered capital of Kangda Group in 2005 and acquisition of equity interests in Kangda Group through capital injection by Chongqing Water

On 4 March 2005, with a view to further strengthening our business, Chongqing Water Holdings (Group) Co., Ltd.* (重慶市水務控股(集團)有限公司) (“Chongqing Water”) with major businesses engaged in water investment, construction and operation, being a state-owned enterprise and an Independent Third Party, obtained certain equity interests in Kangda Group by way of capital

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contribution, and each of Chongqing Kangte, Chongqing Institute, Chuanyi Plant and Chongqing Installation Group converted the distributable profits of Kangda Group into further capital contributions to Kangda Group in proportion to their then capital contribution to Kangda Group. As a result, the registered capital of Kangda Group was further increased to approximately RMB83.4 million. Immediately after such increase in its registered capital, the equity interests of Kangda Group were held as to 65.471% by Chongqing Kangte, 30.674% by Chongqing Water, 1.927% by Chongqing Institute, 0.964% by Chuanyi Plant and 0.964% by Chongqing Installation Group. At that time, Chongqing Kangte was held as to 77.78% by Mr. Zhao Juanxian and 22.22% by other individuals on behalf of Mr. Zhao Juanxian.

(xi) *Transfer of equity interests in Kangda Group by Chongqing Water, Chuanyi Plant and Chongqing Installation Group to Chongqing Kangte*

On 14 March 2007, Chongqing Kangte entered into an equity transfer agreement with Chongqing Installation Group, pursuant to which Chongqing Installation Group transferred its 0.964% equity interest in Kangda Group to Chongqing Kangte for a consideration of RMB803,504. On 2 April 2007, Chongqing Kangte entered into an equity transfer agreement with Chuanyi Plant, pursuant to which Chuanyi Plant transferred its 0.964% equity interest in Kangda Group to Chongqing Kangte for a consideration of RMB803,504. On 16 April 2007, Chongqing Kangte entered into an equity transfer agreement with Chongqing Water, pursuant to which Chongqing Water transferred its 30.674% equity interest in Kangda Group to Chongqing Kangte for a consideration of approximately RMB26.7 million. The consideration in respect of each of these equity transfers was determined with reference to the appraisal value of the net assets of Kangda Group listed in the valuation report issued by Chongqing Kanghua Certified Public Accountants Co., Ltd.* (重慶康華會計師事務所有限責任公司) in July 2007 and fully settled on 26 August 2008. As confirmed by the Directors, at the time of such transfer by Chongqing Water, Chongqing Water was planning for its own listing and as a reorganisation step, Chongqing Water disposed of its equity interests in Kangda Group to Chongqing Kangte. Immediately after such equity transfers, the equity interests of Kangda Group were held as to 98.073% by Chongqing Kangte and 1.927% by Chongqing Institute. At that time, Chongqing Kangte was held as to 63.64% by Mr. Zhao Juanxian, 34.27% by Mr. Zhao Sizhen and 2.09% by other individuals on behalf of Mr. Zhao Juanxian.

(xii) *Increase in the registered capital of Kangda Group in 2008*

On 9 January 2008, Mr. Zhao Sizhen, the son of Mr. Zhao Juanxian, subscribed certain shares of Kangda Group in the amount of RMB26 million, and Chongqing Kangte made a further capital contribution in Kangda Group in the amount of approximately RMB20.6 million. As a result, the registered capital of Kangda Group was further increased to RMB130 million. Immediately after such increase in registered capital, Kangda Group was held as to 78.764% by Chongqing Kangte, 20% by Mr. Zhao Sizhen and 1.236% by Chongqing Institute. At that time, Chongqing Kangte was held as to 63.64% by Mr. Zhao Juanxian, 34.27% by Mr. Zhao Sizhen and 2.09% by other individuals on behalf of Mr. Zhao Juanxian.

Subsequent changes in the equity interests of Kangda Group are elaborated below in the section headed “Corporate Reorganisation”.

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(2) Other PRC Subsidiaries of our Group

We typically incorporate an individual project company for each new project, but in cities where we have existing projects, we generally handle all projects in that city through a single project company. Set out below are the details of 18 PRC operating subsidiaries of our Group established prior to the commencement of the Corporate Reorganisation on 1 April 2011, 17 companies of which were formed for the purpose of undertaking specific wastewater treatment projects and are primarily engaged in the provision of wastewater treatment services (the “17 Water Project Companies”). The other PRC operating subsidiary, Chongqing Zhongya was formed for the purposes of managing and supervising Gaomi Zhongya, a wholly-owned subsidiary of Chongqing Zhongya, for its business activities in relation with the bid invitation process and procurement of chemicals for wastewater treatment projects of our Group. For further details of Gaomi Zhongya, please refer to note 4 to the chart on page 117 of this prospectus.

No.	Company Name	Date of Establishment/ Commencement of Business	Location (PRC)	Registered Capital	Principal Business Activities as at the Latest Practicable Date	Service Concession Arrangement Projects as at the Latest Practicable Date
1.	Xuzhou Kangda	17 April 2006	Feng County, Xuzhou City, Jiangsu Province	RMB20 million	Construction and provision of wastewater treatment plant operation services in China	Feng County Wastewater Treatment Plant Phase I and Feng County Wastewater Treatment Plant Phase II
2.	Gaomi Kangda	8 May 2006	Gaomi City, Shandong Province	RMB33 million	Construction and provision of wastewater treatment plant operation services in China	Gaomi No.2 Wastewater Treatment Plant Phase I and Gaomi No.2 Wastewater Treatment Plant Phase II
3.	Kangda Environmental	16 May 2006	Jiaozuo City, Henan Province	RMB80 million	Construction and provision of wastewater treatment plant operation services in China	Jiaozuo City Wastewater Treatment Plant Phase I, Jiaozuo City Wastewater Treatment Plant Phase II, Jiaozuo City Industrial Park Wanfang Wastewater Treatment Plant Phase I and Jiaozuo City Wastewater Treatment Plant Phase II Expansion

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No.	Company Name	Date of Establishment/ Commencement of Business	Location (PRC)	Registered Capital	Principal Business Activities as at the Latest Practicable Date	Service Concession Arrangement Projects as at the Latest Practicable Date
4.	Suzhou Water	12 October 2006	Suzhou City, Anhui Province	RMB23 million	Provision of wastewater treatment plant operation services in China	Anhui Suzhou Chengnan Wastewater Treatment Plant 1
5.	Shangqiu Water	19 January 2007	Shangqiu City, Henan Province	RMB63 million	Construction and provision of wastewater treatment plant operation services in China	Shangqiu Wastewater Treatment Plant Phase I and Shangqiu Wastewater Treatment Plant Phase II
6.	Linyi Water	19 April 2007	Linyi City, Shandong Province	RMB15 million	Construction and provision of wastewater treatment plant operation services in China	Linyi Nanfang Wastewater Treatment Plant Phase I
7.	Guangrao Kangda	20 June 2008	Guangrao County, Dongying City, Shandong Province	RMB8.32 million	Construction and provision of wastewater treatment plant operation services in China	Shandong Guangrao Wastewater Treatment Plant Phase I and Shandong Guangrao Wastewater Treatment Plant Phase II
8.	Linying Kangda	28 July 2008	Linying County, Luohe City, Henan Province	RMB6 million	Provision of wastewater treatment plant operation services in China	Linying Wastewater Treatment Plant
9.	Harbin Kangda	10 December 2008	Harbin City, Heilongjiang Province	RMB30 million	Construction and provision of wastewater treatment plant operation services in China	Heilongjiang Harbin Hejiagou Qunli Wastewater Treatment Plant Phase I and Heilongjiang Harbin Hejiagou Qunli Wastewater Treatment Plant Phase II

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No.	Company Name	Date of Establishment/ Commencement of Business	Location (PRC)	Registered Capital	Principal Business Activities as at the Latest Practicable Date	Service Concession Arrangement Projects as at the Latest Practicable Date
10.	Weifang Kangda	19 February 2009	Weifang City, Shandong Province	RMB94.18 million	Construction and provision of wastewater treatment plant operation services in China	Weifang Yuhe Wastewater Treatment Plant
11.	Gaomi Sewage Treatment	19 August 2009	Wangwu Village, Jiangzhuang Town, Gaomi City, Shandong Province	RMB17 million	Construction and provision of wastewater treatment plant operation services in China	Gaomi Third Wastewater Treatment Plant Phase I and Gaomi Third Wastewater Treatment Plant Phase II
12.	Fengxian Kangda	26 August 2009	Feng County, Xuzhou City, Jiangsu Province	RMB20 million	Construction and provision of wastewater treatment plant operation services in China	Feng County Economic Development Zone Wastewater Treatment Plant Phase I
13.	Wendeng Kangda	30 November 2009	Xiaoguan Town, Wendeng City, Shandong Province	RMB10 million	Construction and provision of wastewater treatment plant operation services in China	Shandong Wendeng Wastewater Treatment Plant
14.	Jining Kangda	27 September 2010	Jining City, Shandong Province	RMB25 million	Construction and provision of wastewater treatment plant operation services in China	Shandong Jining Jibe Hi-tech Industrial Zone Wastewater Treatment Plant
15.	Haiyang Kangda	21 October 2010	Zangjia Village, Fengcheng Town, Haiyang City, Shandong Province	RMB6 million	Provision of wastewater treatment plant operation services in China	Shandong Haiyang Wastewater Treatment Plant
16.	Tianjin Kangda	8 November 2010	Ninghe County, Tianjin City	RMB16.5 million	Provision of wastewater treatment plant operation services in China	Tianjin Ninghe Wastewater Treatment Plant Phase I

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No.	Company Name	Date of Establishment/ Commencement of Business	Location (PRC)	Registered Capital	Principal Business Activities as at the Latest Practicable Date	Service Concession Arrangement Projects as at the Latest Practicable Date
17.	Bengbu Water ⁽¹⁾	7 December 2010	Lutai Village, Xiao Bengbu Town, Bengbu City, Anhui Province	Not applicable	Not applicable	Not applicable
18.	Chongqing Zhongya ⁽²⁾	9 August 2007	New North District, Chongqing City	RMB2 million	Development and sales of environmental protection and energy saving products, provision of related technical services in China	Not applicable

Notes:

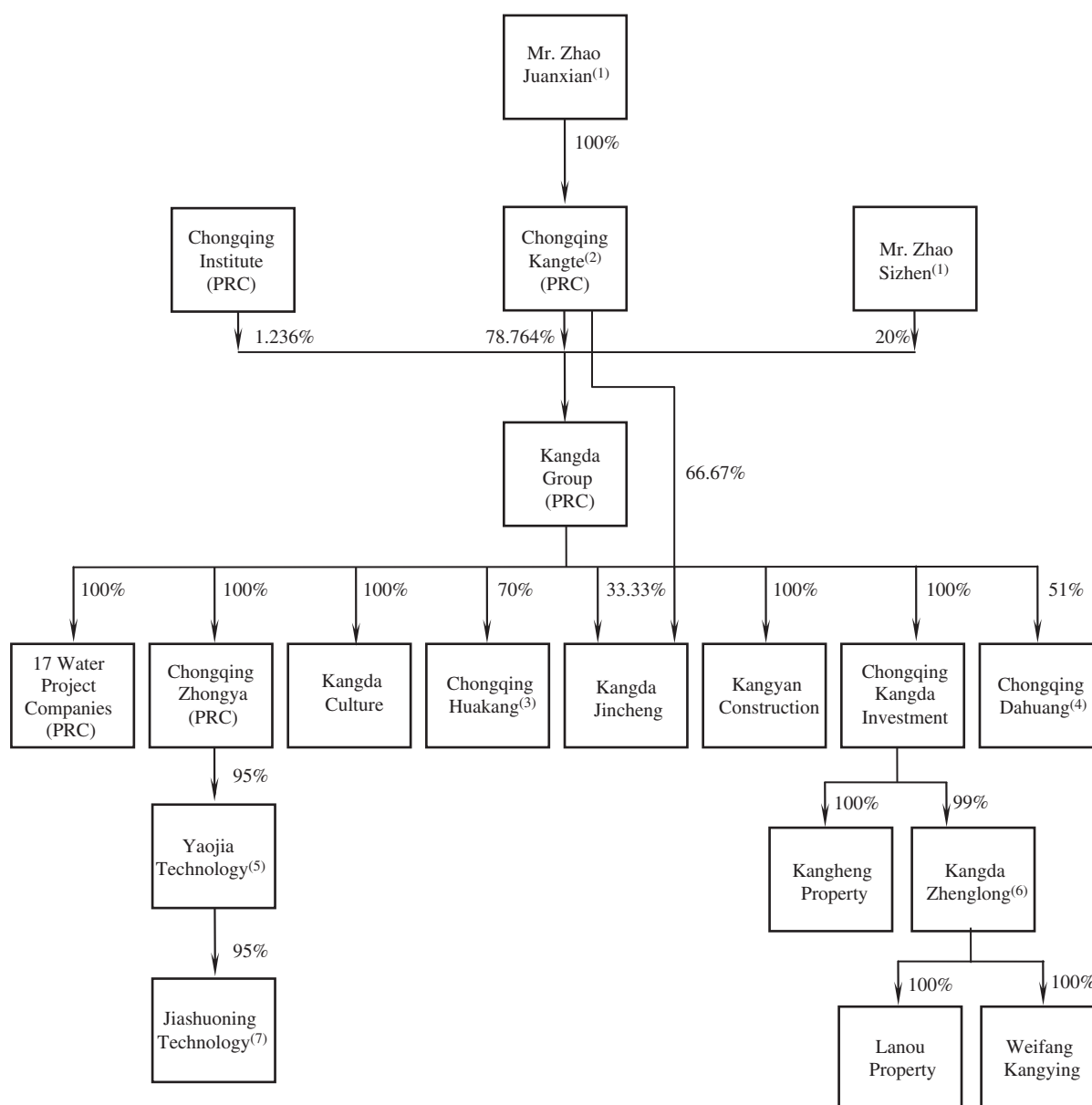
- (1) Bengbu Water was deregistered on 25 December 2012, due to the completion of the relevant project operated by Bengbu Water.
- (2) Chongqing Zhongya was formed for the purposes of managing and supervising Gaomi Zhongya, a wholly-owned subsidiary of Chongqing Zhongya, for its business activities in relation with the bid invitation process and procurement of chemicals for wastewater treatment projects of our Group.

For details about the 18 PRC subsidiaries of our Group established before the commencement of the Corporate Reorganisation, please refer to the paragraph headed “C. Further Information About Our Business — 3. Further information about our PRC establishments” in Appendix IV to this prospectus.

Other than the 18 PRC operating subsidiaries set out above, we had 12 other PRC subsidiaries of our Group established prior to the commencement of the Corporate Reorganisation on 1 April 2011, including Kangda Culture, Chongqing Huakang, Kangda Jincheng, Kangyan Construction, Chongqing Kangda Investment, Chongqing Dahuang, Yaojia Technology, Jiashuoning Technology, Kangheng Property, Kangda Zhenglong, Lanou Property and Weifang Kangying. All of the companies were disposed of by our Group or deregistered during the process of the Corporate Reorganisation. For further details of the disposal and deregistration of the aforementioned 12 companies, please refer to the paragraph headed “Corporate Reorganisation” in this section.

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The following chart illustrates the beneficial shareholders and subsidiaries of our Group immediately prior to the Corporate Reorganisation:



Notes:

- (1) Pursuant to a confirmation letter dated 18 July 2013 entered into between Mr. Zhao Juanxian and Mr. Zhao Sizhen, Mr. Zhao Juanxian and Mr. Zhao Sizhen have been acting in concert since October 2008. Mr. Zhao Juanxian and Mr. Zhao Sizhen have and will continue to jointly control our Group and Mr. Zhao Juanxian has and will continue to manage our Group's future management and operation, including but not limited to matters regarding business development and marketing strategies, management policies, operation and financial policies, increase or decrease of registered capital, changes related to shareholding and articles of association, investments, joint ventures and external guarantees.
- (2) Approximately 34.27% of the equity interests in Chongqing Kangte was held by Mr. Zhao Sizhen on behalf of Mr. Zhao Juanxian.

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- (3) The remaining 30% of equity interests in Chongqing Huakang were held by Chongqing Chemical and Pharmaceutical Holding (Group) Company* (重慶化醫控股(集團)公司) (“Chongqing Huayi”), an Independent Third Party. Chongqing Huakang was deregistered on 5 September 2011.
- (4) The remaining 49% of equity interests in Chongqing Dahuang were held by Taiko Kikai Industrial Co., Ltd. (the “Japanese Shareholder”), a company established in Japan in April 1956 and an Independent Third Party, prior to the Corporate Reorganisation.
- (5) The remaining 5% of equity interests in Yaojia Technology were held by Ms. Tian Qihui (田琪惠), the spouse of Mr. Zhao Juanxian. Yaojia Technology was deregistered on 26 September 2011.
- (6) The remaining 1% of equity interests in Kangda Zhenglong was held by Mr. Zhao Sizhen prior to the Corporate Reorganisation.
- (7) The remaining 5% of equity interests in Jiashuoning Technology were held by Mr. Gu, a Director. Jiashuoning Technology was deregistered on 12 May 2011.

CORPORATE REORGANISATION

In order to rationalise our organisational structure for the purpose of the Listing, our Group underwent the Corporate Reorganisation prior to the Listing. Such Corporate Reorganisation involved the following steps:

(1) Disposal of Equity Interests in Subsidiaries of Kangda Group

With a view to excluding certain businesses unrelated to wastewater treatment service, to streamlining our Group’s structure, and to enhancing our focus on our core business, we disposed of our equity interests in certain PRC subsidiaries between 1 April 2011 and 31 December 2012. Our PRC legal advisers, Commerce & Finance Law Offices, are of the view that each of the disposals of our equity interests in such PRC subsidiaries has been legally completed and all necessary approvals have been obtained. Detailed information of these PRC subsidiaries is set out in the following table:

No.	Company Name	Date of Establishment/ Commencement of Business	Registered Capital (Immediately before Disposal by Our Group)	Shareholding Structure Immediately before Disposal by Our Group	Date of Completion of Disposal by Our Group	Shareholding Structure Immediately after Disposal by Our Group	Principal Business Activities as at the Latest Practicable Date
1.	Chongqing Dahuang ^(a)	28 March 2003	US\$1 million	Kangda Group (51%) Japanese Shareholder (49%)	26 July 2011	Chongqing Kangda Investment (51%) Japanese Shareholder (49%)	Manufacture and sales of the wastewater treatment devices for ships
2.	Kangyan Construction ^(b)	28 April 2009	RMB26 million	Kangda Group (100%)	20 July 2011	Kangda Jincheng (100%)	No actual business

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No.	Company Name	Date of Establishment/ Commencement of Business	Registered Capital (Immediately before Disposal by Our Group)	Shareholding Structure Immediately before Disposal by Our Group	Date of Completion of Disposal by Our Group	Shareholding Structure Immediately after Disposal by Our Group	Principal Business Activities as at the Latest Practicable Date
3.	Kangda Jincheng ^(c)	24 December 2009	RMB30 million	Kangda Group (33.33%) Chongqing Kangte (66.67%)	11 May 2011	Chongqing Kangte (100%)	No actual business
4.	Chongqing Kangda Investment ^(d)	19 April 2010	RMB100 million	Kangda Group (100%)	1 April 2011	Chongqing Kangte (100%)	General investment with its own funds
5.	Kangda Culture ^(e)	24 August 2010	RMB3 million	Kangda Group (100%)	8 June 2011	Chongqing Kangda Investment (100%)	Purchase and sales of stones, root carving, calligraphy and painting, landscaping
6.	Huludao Jincheng ^(f)	18 July 2011 ^(g)	RMB5 million	Kangda Group (90%) Kangda Jincheng (10%)	29 December 2011	Kangda Jincheng (100%)	Construction, operation and management of solid waste treatment plants

Notes:

- (a) On 23 May 2011, Chongqing Kangda Investment entered into an equity transfer agreement with Kangda Group, pursuant to which Kangda Group transferred its 51% equity interests in Chongqing Dahuang to Chongqing Kangda Investment for a consideration of US\$510,000. Such consideration was determined with reference to the then registered capital of Chongqing Dahuang and was fully paid on 1 June 2012. Immediately after such equity transfers, the equity interests of Chongqing Dahuang were held as to 51% by Chongqing Kangda Investment and 49% by the Japanese Shareholder.
- (b) On 18 July 2011, Kangda Jincheng entered into an equity transfer agreement with Kangda Group, pursuant to which Kangda Group transferred its 100% equity interests in Kangyan Construction to Kangda Jincheng for a consideration of RMB26 million. Such consideration was determined with reference to the then registered capital of Kangyan Construction and fully settled on 20 October 2011. Immediately after such equity transfer, Kangyan Construction became wholly owned by Kangda Jincheng.
- (c) On 13 April 2011, Chongqing Kangte entered into an equity transfer agreement with Kangda Group, pursuant to which Kangda Group transferred its 33.33% equity interests in Kangda Jincheng to Chongqing Kangte for a consideration of RMB10 million. Such consideration was determined with reference to the then registered capital of Kangda Jincheng and was fully settled on 17 August 2011. Immediately after such equity transfer, Kangda Jincheng became wholly owned by Chongqing Kangte.
- (d) On 31 March 2011, Chongqing Kangte entered into an equity transfer agreement with Kangda Group, pursuant to which Kangda Group transferred its 100% equity interests in Chongqing Kangda Investment to Chongqing Kangte for a consideration of RMB100 million. Such consideration was determined with reference to the then registered capital of Chongqing Kangda Investment and fully settled on 21 April 2011. Immediately after such equity transfers, Chongqing Kangda Investment became wholly owned by Chongqing Kangte.

HISTORY AND CORPORATE STRUCTURE

Kangheng Property, as a wholly-owned subsidiary of Chongqing Kangda Investment established on 16 November 2010, was indirectly disposed of through the disposal of Chongqing Kangda Investment by Kangda Group on 1 April 2011.

Gaomi Kangrui was indirectly disposed of through the disposal of Chongqing Kangda Investment by Kangda Group as it was established as a wholly-owned subsidiary of Chongqing Kangda Investment on 27 September 2011. Gaomi Kangrui was established after the commencement of the Corporate Reorganisation and the disposal of Chongqing Kangda Investment, Gaomi Kangrui's parent company, and therefore it is not shown on the shareholding chart on page 106 of this prospectus.

Kangda Zhenglong, as a subsidiary held by Chongqing Kangda Investment as to 99% equity interests, was established on 26 July 2010. The remaining 1% of equity interests of Kangda Zhenglong was held by Mr. Zhao Sizhen. Kangda Zhenglong was indirectly disposed through the disposal of Chongqing Kangda Investment by Kangda Group on 1 April 2011. On 13 April 2011, Mr. Zhao Sizhen entered into an equity transfer agreement with Chongqing Kangda Investment, pursuant to which Mr. Zhao Sizhen transferred his 1% equity interests in Kangda Zhenglong to Chongqing Kangda Investment for a consideration of RMB600,000. Such consideration was determined with reference to the then registered capital of Kangda Zhenglong and fully settled on 20 September 2011. Immediately after such equity transfers, Kangda Zhenglong became wholly owned by Chongqing Kangda Investment.

Lanou Property and Weifang Kangying were established as wholly-owned subsidiaries of Kangda Zhenglong on 14 September 2010 and therefore were disposed of through the disposal of Kangda Zhenglong.

- (e) On 1 June 2011, Chongqing Kangda Investment entered into an equity transfer agreement with Kangda Group, pursuant to which Kangda Group transferred its 100% equity interests in Kangda Culture to Chongqing Kangda Investment for a consideration of RMB3 million. Such consideration was determined with reference to the then registered capital of Kangda Culture and fully paid on 1 June 2012. Immediately after such equity transfers, Kangda Culture became wholly owned by Chongqing Kangda Investment.
- (f) On 10 December 2011, Kangda Jincheng entered into an equity transfer agreement with Kangda Group, pursuant to which Kangda Group transferred its 90% equity interests in Huludao Jincheng to Kangda Jincheng for a consideration of RMB4.5 million. Such consideration was determined with reference to the then registered capital of Huludao Jincheng and fully settled on 31 December 2011. Immediately after such equity transfer, Huludao Jincheng became wholly owned by Kangda Jincheng.
- (g) Huludao Jincheng was established after the commencement of the Corporate Reorganisation, and therefore not shown on the shareholding chart on page 106 of this prospectus.

In addition, the following PRC companies were also deregistered for the reason that they were no longer required as project companies as the relevant projects that they had conducted had already been completed:

No.	Company Name	Establishment Date/Commencement of Business	Registered Capital (Immediately before Deregistration)	Shareholding Structure (Immediately before Deregistration)	Date of Deregistration
1.	Chongqing Huakang	22 December 2003	RMB5 million	Kangda Group (70%) Chongqing Huayi (30%)	5 September 2011
2.	Jiashuoning Technology	3 December 2007	RMB2 million	Yaojia Technology (95%) Mr. Gu (5%)	12 May 2011
3.	Yaojia Technology	16 October 2007	RMB2 million	Chongqing Zhongya (95%) Ms. Tian Qihui (5%)	26 September 2011
4.	Bengbu Water	7 December 2010	RMB100,000	Kangda Group (100%)	25 December 2012

HISTORY AND CORPORATE STRUCTURE

Our PRC legal advisers, Commerce & Finance Law Offices, are of the view that the deregistration of each of the PRC companies listed out above has been legally completed.

(2) Transfer of Equity Interests in Kangda Group

On 19 May 2011, in order to streamline our shareholding structure, Chongqing Kangte entered into an equity transfer agreement with Chongqing Institute, pursuant to which Chongqing Institute transferred its 1.236% equity interest in Kangda Group to Chongqing Kangte for a consideration of RMB4.7 million determined with reference to the appraisal value of the then net assets of Kangda Group. On the same date and for the same reason, Chongqing Kangte entered into an equity transfer agreement with Mr. Zhao Sizhen, pursuant to which Mr. Zhao Sizhen transferred his 20% equity interest in Kangda Group to Chongqing Kangte for a consideration of RMB26 million, determined with reference to the then registered capital of Kangda Group. The consideration for these equity transfers was fully settled on 30 May 2011 and 26 September 2012, respectively. Immediately after such equity transfers, Kangda Group became wholly owned by Chongqing Kangte. At that time, Chongqing Kangte was held as to 65.73% by Mr. Zhao Juanxian, and 34.27% by Mr. Zhao Sizhen on behalf of Mr. Zhao Juanxian. On 26 August 2013, Mr. Zhao Sizhen entered into an equity transfer agreement with Mr. Zhao Juanxian and Mr. Gu, respectively, pursuant to which Mr. Zhao Sizhen transferred 32.27% and 2% equity interests in Chongqing Kangte to Mr. Zhao Juanxian and Mr. Gu. As there was no change in beneficial ownership of equity interests being transferred, Mr. Zhao Sizhen did not receive any consideration for such transfer. Immediately after such equity transfer, Chongqing Kangte was held as to 98% by Mr. Zhao Juanxian and 2% by Mr. Gu on behalf of Mr. Zhao Juanxian.

On 30 March 2012, the registered capital of Kangda Group was further increased to RMB366 million by an additional capital contribution made by Chongqing Kangte. Pursuant to the capital verification report issued by Chongqing Puhua Certified Public Accountants Co., Ltd.* (重慶普華會計師事務所有限責任公司) on 29 March 2012, such increase in the registered capital of Kangda Group was fully paid by Chongqing Kangte as at 29 March 2012.

(3) Incorporation of Offshore Companies

On 21 July 2011, Kangda Holdings was incorporated in the BVI with an authorised share capital of US\$50,000 divided into 50,000 shares of US\$1.00 each. On the same day, Mr. Zhao Sizhen subscribed for one share in Kangda Holdings to hold his interests in our Company.

On 22 August 2011, our Company was incorporated in the Cayman Islands as an exempted company with an authorised share capital of HK\$380,000 divided into 38 million shares of a par value of HK\$0.01 each as the holding company of our Group. On the same day, one nil-paid Share was issued (the “Subscriber’s Share”) to Codan Trust Company (Cayman) Limited and the Subscriber’s Share was transferred to Kangda Holdings on the same day.

On 23 August 2011, Kangda Investment was incorporated in the BVI with an authorised share capital of US\$50,000 divided into 50,000 shares of US\$1.00 each. On the same day, one share of Kangda Investment was issued to our Company. On 25 May 2012, one additional share of Kangda Investment was issued to our Company.

HISTORY AND CORPORATE STRUCTURE

On 2 September 2011, Kangda Hong Kong was incorporated in Hong Kong with an authorised share capital of HK\$10,000 divided into 10,000 shares of HK\$1.00 each. On the same day, one share of Kangda Hong Kong was issued to Kangda Investment. On 25 May 2012, one additional share of Kangda Hongkong was issued to Kangda Investment.

On 15 May 2012, Kangda Holdings subscribed for (i) 9,998 fully-paid Shares at the par value of HK\$0.01 each, and (ii) one nil-paid Share at the Hong Kong dollar equivalent of approximately RMB600 million. On 25 May 2012, our Company received approximately HK\$737.2 million, equivalent of approximately RMB600 million, in cash upon a 100% call being made on such one nil-paid Share.

(4) Acquisition of Equity Interests in Kangda Group

On 5 April 2012, Chongqing Kangte entered into an equity transfer agreement with Kangda Hong Kong, pursuant to which Chongqing Kangte transferred its 100% equity interests in Kangda Group to Kangda Hong Kong for a consideration of RMB375 million. Such consideration was determined with reference to the appraisal value of the net assets of Kangda Group set out in the valuation report issued by Chongqing Hongling Real Estate and Land Appraisal Co., Ltd.* (重慶宏嶺資產評估與土地房地產估價有限公司) on 5 April 2012 and fully settled on 11 June 2012. On 9 April 2012, the proposed acquisition by Kangda Hong Kong of 100% of the equity interests in Kangda Group held by Chongqing Kangte was approved by the Chongqing Foreign Trade and Economic Relations Commission* (重慶市對外貿易經濟委員會). Immediately after such equity transfer, Kangda Group became wholly owned by Kangda Hong Kong.

On 21 June 2012, the proposed capital increase of Kangda Group to RMB530 million was approved by the Chongqing Foreign Trade and Economic Relations Commission* (重慶市對外貿易經濟委員會). Pursuant to the capital verification report issued by Chongqing Zhongzi Certified Public Accountants Co., Ltd.* (重慶中諮會計師事務所有限責任公司) on 15 August 2012, such increase in the registered capital of Kangda Group was fully paid by Kangda Hong Kong as at 26 July 2012. Such capital increase was completed on 22 August 2012.

(5) Issuance of the Exchangeable Bond

On 24 May 2012, Kangda Holdings, Mr. Zhao Sizhen, the Investor and the Investor Guarantor entered into a bond purchase agreement, pursuant to which the Investor agreed to purchase an exchangeable bond issued by Kangda Holdings with a principal amount of HK\$737.2 million, exchangeable into the Shares held by Kangda Holdings in the Company, details of which are set out in the paragraph headed “The Exchangeable Bond” in this section.

As advised by our PRC legal advisers, Commerce & Finance Law Offices, we have obtained all necessary approvals required for the Corporate Reorganisation and all of the Corporate Reorganisation steps within the territory of the PRC have been legally completed under the current PRC laws. Our Corporate Reorganisation was completed on 25 December 2012.

HISTORY AND CORPORATE STRUCTURE

ESTABLISHMENT OF NEW SUBSIDIARIES

After the commencement of the Corporate Reorganisation, with the development of our business, we established certain new subsidiaries in order to undertake more wastewater treatment projects and other related business activities, the details of which are set out below:

No.	Company Name	Date of Establishment/ Commencement of Business	Location (PRC)	Registered Capital	Principal Business Activities as at Latest Practicable Date	Service Concession Arrangement Projects as at the Latest Practicable Date
1.	Fengcheng Kangda*	8 August 2011	Beiluanzhuang Village, Gaomi City, Shandong Province	RMB8.5 million	Provision of wastewater treatment plant operation services in China	Gaomi City Wastewater Treatment Plant
2.	Jilin Kangda ^(a)	22 September 2011	Jilin City, Jilin Province	RMB5 million	Sewage and reclaimed water treatment in China	Not applicable
3.	Beijing Kangda*	29 September 2011	Weizhuang Village, Daxing District, Beijing City	RMB100,000	Construction and provision of wastewater treatment plant operation services in China	Not applicable
4.	Rushan Kangda*	12 October 2011	Xiaxi Village, Rushan City, Shandong Province	RMB24 million	Construction and provision of wastewater treatment plant operation services in China	Shandong Rushan Residential Wastewater Treatment Plant Phase I, Shandong Rushan Residential Wastewater Treatment Plant Phase II and Shandong Rushan Industrial Wastewater Treatment Plant Phase I
5.	Weifang Binhai Kangda*	16 November 2011	Weifang City, Shandong Province	RMB10.5 million	Construction and provision of wastewater treatment plant operation services in China	Weifang Binhai Shuicheng Wastewater Treatment Plant

HISTORY AND CORPORATE STRUCTURE

No.	Company Name	Date of Establishment/ Commencement of Business	Location (PRC)	Registered Capital	Principal Business Activities as at Latest Practicable Date	Service Concession Arrangement Projects as at the Latest Practicable Date
6.	Hebi Kangda ^(b)	7 February 2012	Qibin District, Hebi City, Henan Province	RMB20 million	Construction and provision of water supply services in China	Hebi Baoshan District Water Supply Project
7.	Haiyang Xingcun Kangda*	14 February 2012	Xingcun Town, Haiyang City, Shandong Province	RMB3 million	Construction and provision of wastewater treatment plant operation services in China	Shandong Haiyang Xingcun Wastewater Treatment Plant
8.	Hebi Water Treatment*	15 February 2012	Qibin District, Hebi City, Henan Province	RMB5.5 million	Construction and provision of wastewater treatment plant operation services in China	Hebi Baoshan District Circular Economy Industrial Zone Wastewater Treatment Plant Phase I
9.	Shangqiu Kangda*	15 February 2012	Shangqiu City, Henan Province	RMB7 million	Construction and provision of wastewater treatment plant operation services in China	Shangqiu Liangyuan Industrial Park Wastewater Treatment Plant
10.	Pingdingshan Kangda*	18 October 2012	Wugang City, Henan Province	RMB10 million	Provision of wastewater treatment plant operation services in China	Wugang Zhulan Wastewater Treatment Plant
11.	Dongying Kangda ^(c)	28 November 2012	Dongying City, Shandong Province	approximately US\$13.1 million	Construction and provision of wastewater treatment plant operation services in China	Dongying Port North Economic Development Zone Wastewater Treatment Plant
12.	Shanxian Kangda*	3 December 2012	Shan County, Heze City, Shandong Province	RMB2 million	Construction and provision of wastewater treatment plant operation services in China	Shan County Industrial Park Wastewater Treatment Plant
13.	Suzhou Kangda*	4 March 2013	Suzhou City, Anhui Province	RMB36 million	Provision of wastewater treatment plant operation services in China	Anhui Suzhou Chengnan Wastewater Treatment Plant 2
14.	Huadian Kangda*	21 August 2013	Huadian City, Jilin Province	RMB10 million	Provision of wastewater treatment plant operation services in China	Hua Dian Wastewater Treatment Plant

HISTORY AND CORPORATE STRUCTURE

No.	Company Name	Date of Establishment/ Commencement of Business	Location (PRC)	Registered Capital	Principal Business Activities as at Latest Practicable Date	Service Concession Arrangement Projects as at the Latest Practicable Date
15.	Fengxian Kangda III*	18 October 2013	Feng County Xuzhou City, Jiangsu Province	RMB3 million	Construction and provision of wastewater treatment plant operation services in China	Feng County Power Industrial Park Wastewater Treatment Plant
16.	Liangshan Kangda*	21 April 2014	Liangshan County, Jining City, Shandong Province	RMB1 million	Provision of wastewater treatment plant operation services in China	Shandong Liangshan Economic Development Zone Wastewater Treatment Plant

Notes:

- * The companies marked with an “*” in the above table, together with the 17 Water Projects Companies established prior to the Corporate Reorganisation, excluding Bengbu Water, which was deregistered on 25 December 2012, are collectively referred to as “29 Other Water Project Companies”.
- (a) As at the Latest Practicable Date, the equity interests of Jilin Kangda were held as to 51% by Kangda Group and 49% by Jilin Water, being a substantial shareholder of Jilin Kangda.
- (b) As at the Latest Practicable Date, the equity interests of Hebi Kangda were held as to 60% by Kangda Group, 30% by Hebi City Water (Group) Co., Ltd.* (鶴壁市城市水務(集團)有限責任公司) and 10% by Hebi Baoshan Assets Management Co., Ltd.* (鶴壁市寶山資產管理有限公司), both being substantial shareholders of Hebi Kangda.
- (c) As at the Latest Practicable Date, the equity interests of Dongying Kangda were held as to 76.17% by Kangda Hong Kong and 23.83% by Kangda Group.

For further details about the new subsidiaries established after Corporate Reorganisation, please refer to the paragraph headed “C. Further Information About Our Business — 3. Further information about our PRC establishments” in Appendix IV to this prospectus.

ACQUISITION OF BEIJING CHANG SHENG

With the view to further enhancing our Group’s position in the environmental protection industry, Kangda Group entered into a letter of intent with Beijing Urban Construction Investment to acquire Beijing Chang Sheng from Beijing Urban Construction Investment, an Independent Third Party, on 21 December 2012. Beijing Chang Sheng is an investment management company primarily engaged in environmental project investment and public infrastructure project investment. Prior to our acquisition, Beijing Chang Sheng had already undertaken several wastewater treatment projects. Beijing Chang Sheng was established on 10 June 2008 and was wholly owned by Beijing Urban Construction Investment prior to our acquisition. Beijing Urban Construction Investment sold Beijing Chang Sheng in response to government guidance. Immediately prior to our acquisition of Beijing Chang Sheng, Beijing Chang Sheng held 100% of the equity interests of Jixi Chengjian Sewage, Ningguo Chengjian Sewage, Anhui Chengjian Huashan Sewage, Dacheng Chengjian Sewage, Yucheng Dongjiao Chengjian Sewage and Jiyuan Yuchuan Chengjian Sewage (collectively referred to as “Six Beijing Chang Sheng Wholly Owned Subsidiaries”) and 20% of the equity interests of Nanchang Qingshanhu Sewage.

HISTORY AND CORPORATE STRUCTURE

Set out below are the details of the Six Beijing Chang Sheng Wholly Owned Subsidiaries and Nanchang Qingshanhu Sewage:

No.	Company Name	Establishment Date / Commencement of Business	Location (PRC)	Registered Capital	Principal Business Activities as at Latest Practicable Date	Service Concession Arrangement Projects as at the Latest Practicable Date
1.	Nanchang Qingshanhu Sewage ⁽¹⁾	10 December 2002	Nanchang City, Jiangxi Province	RMB99.33 million	Construction, operation and management of wastewater treatment plants in China wastewater treatment	Jiangxi Nanchang Qingshan Lake Wastewater Investment Plant
2.	Jixi Chengjian Sewage	24 September 2007	Jixi County, Xuancheng City, Anhui Province	RMB8 million	Construction and provision of wastewater treatment plant operation services in China	Anhui Jixi Wastewater Treatment Plant Phase I
3.	Ningguo Chengjian Sewage	24 September 2007	Ningguo City, Anhui Province	RMB20 million	Construction and provision of wastewater treatment plant operation services in China	Anhui Ningguo Wastewater Treatment Plant Phase I
4.	Anhui Chengjian Huashan Sewage	22 October 2008	Chaohu City, Anhui Province	RMB8 million	Construction and provision of wastewater treatment plant operation services in China	Anhui Chaohu Economic Development Zone Huashan Wastewater Treatment Plant Phase I
5.	Dacheng Chengjian Sewage	17 November 2008	Langfang City, Hebei Province	RMB9.6 million	Construction and provision of wastewater treatment plant operation services in China	Hebei Dacheng Wastewater Treatment Plant Phase I
6.	Yucheng Dongjiao Chengjian Sewage ⁽²⁾	3 December 2010	Yucheng County, Dezhou City, Shandong Province	RMB10 million	Construction and provision of wastewater treatment plant operation services in China	Shandong Yucheng No.2 Wastewater Treatment Plant Phase I and Shandong Yucheng No. 2 Wastewater Treatment Plant Phase II
7.	Jiyuan Yuchuan Chengjian Sewage	7 July 2011	Jiyuan City, Henan Province	RMB30 million	Construction and provision of wastewater treatment plant operation services in China	Henan Jiyuan Yuchuan Industry Cluster District Wastewater Treatment Plant for District A Phase I

HISTORY AND CORPORATE STRUCTURE

Note:

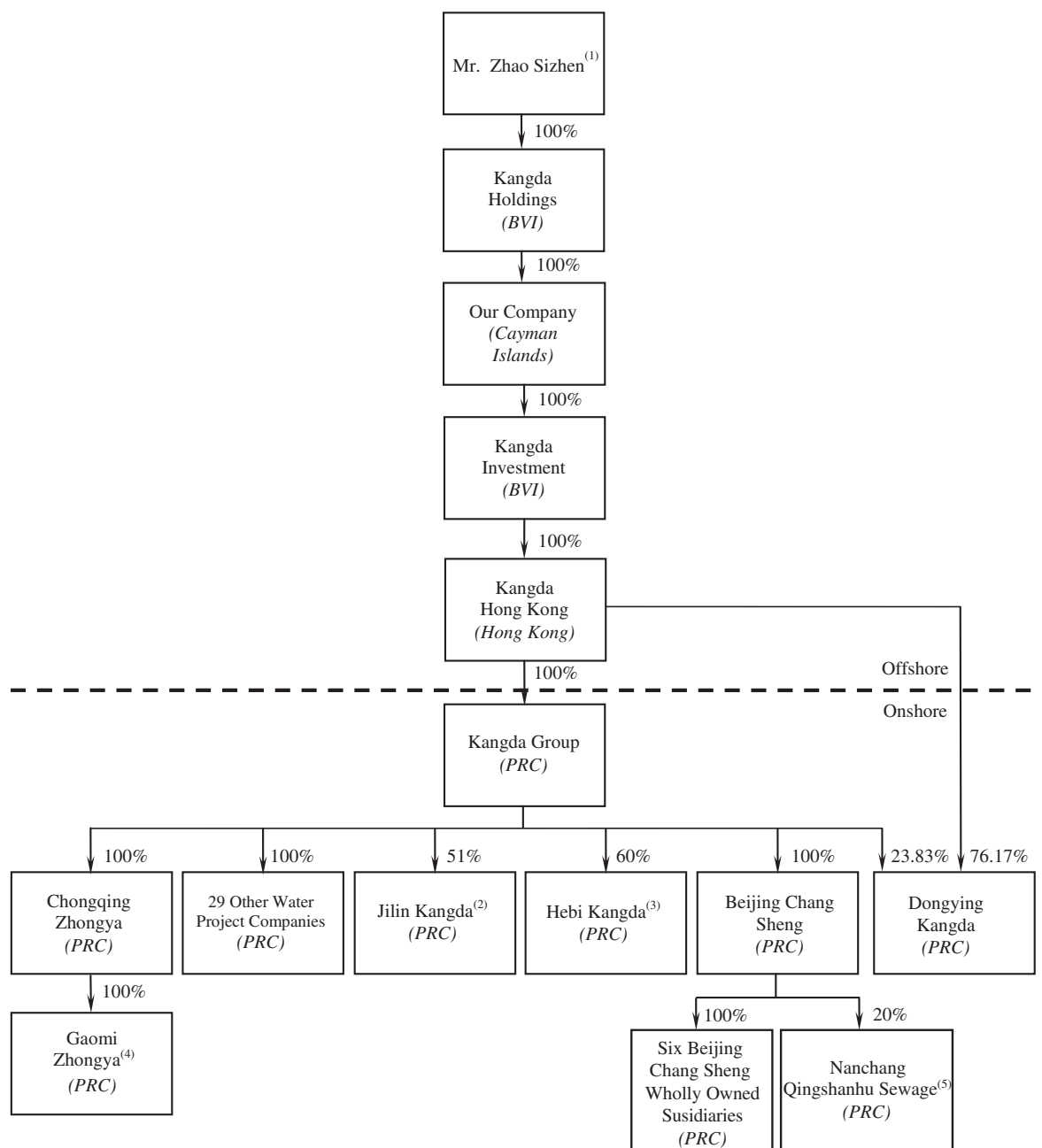
- (1) The remaining 80% of equity interests in Nanchang Qingshanhu Sewage were held by Berlinwasser China Holdings Limited (柏林水務中國控股有限公司), being a controlling shareholder of Nanchang Qingshanhu Sewage as at the Latest Practicable Date.
- (2) Includes a financial receivable of approximately RMB26.0 million as at the date of acquisition.

On 14 March 2013, the asset appraisal report of the 100% equity interest in Beijing Chang Sheng issued by an independent valuer, China Appraisal Associates* (北京中天華資產評估有限責任公司) was examined and approved by the State-owned Assets Supervision and Administration Commission of the People's Government of Beijing Municipality* (北京市人民政府國有資產監督管理委員會). On 28 March 2013, the qualification of tendering for the acquisition of the 100% equity interests in Beijing Chang Sheng by Kangda Group was confirmed by China Beijing Equity Exchange* (北京產權交易所有限公司). The tendering process at China Beijing Equity Exchange* (北京產權交易所有限公司) started on 27 March 2013 and ended on 3 May 2013, during which Kangda Group won the open bidding and became the transferee of the 100% equity interests of Beijing Chang Sheng. On 3 May 2013, Kangda Group entered into a property right transaction agreement (產權交易合同) with Beijing Urban Construction Investment, pursuant to which Beijing Urban Construction Investment agreed to transfer its 100% equity interests in Beijing Chang Sheng to Kangda Group for a consideration of RMB180.8 million. Such consideration was determined with reference to Beijing Chang Sheng's appraised net asset value of RMB180.8 million as at 31 October 2012, as evaluated by China Appraisal Associates* (北京中天華資產評估有限責任公司). The total consideration of RMB180.8 million was fully paid up by Kangda Group as at 8 May 2013.

Upon the completion of the above equity transfer, Beijing Chang Sheng and indirectly, the Six Beijing Chang Sheng Wholly Owned Subsidiaries, became wholly owned by Kangda Group and we indirectly owned 20% of the equity interests in Nanchang Qingshanhu Sewage. Our PRC legal advisers, Commerce & Finance Law Offices, are of the view that the above acquisition of Beijing Chang Sheng by Kangda Group was legally completed and all necessary approvals have been obtained.

HISTORY AND CORPORATE STRUCTURE

Set out below is the shareholding structure of our Group immediately following completion of Corporate Reorganisation but before the Capitalisation Issue, the Global Offering and the exchange of the Exchangeable Bond by the Investor:



Notes:

- (1) Pursuant to a confirmation letter dated 18 July 2013 entered into between Mr. Zhao Juanxian and Mr. Zhao Sizhen, Mr. Zhao Juanxian and Mr. Zhao Sizhen have been acting in concert since October 2008. Mr. Zhao Juanxian and Mr. Zhao Sizhen have and will continue to jointly control our Group and Mr. Zhao Juanxian has and will continue to manage our Group's future management and operation, including but not limited to matters regarding business development and marketing strategies, management policies, operation and financial policies, increase or decrease of registered capital, changes related to shareholding and articles of association, investments, joint ventures and external guarantees.

HISTORY AND CORPORATE STRUCTURE

- (2) The remaining 49% of equity interests in Jilin Kangda were held by Jilin Water, being a substantial shareholder of Jilin Kangda as at the Latest Practicable Date.
- (3) The remaining 40% of equity interests in Hebi Kangda were held as to 30% by Hebi City Water (Group) Co., Ltd.* (鶴壁市城市水務(集團)有限責任公司) and as to 10% held by Hebi Baoshan Assets Management Co., Ltd.* (鶴壁市寶山資產管理有限公司), respectively, both being substantial shareholders of Hebi Kangda as at the Latest Practicable Date.
- (4) Gaomi Zhongya was established on 4 July 2011 and held as to 100% by Chongqing Zhongya.
- (5) The remaining 80% of equity interests in Nanchang Qingshanhu Sewage were held by Berlinwasser China Holdings Limited (柏林水務中國控股有限公司), being a controlling shareholder of Nanchang Qingshanhu Sewage as at the Latest Practicable Date.

THE EXCHANGEABLE BOND

In order to facilitate the Corporate Reorganisation, build an international platform and further expand our core business and further improve corporate governance, on 24 May 2012, Kangda Holdings, Mr. Zhao Sizhen, the Investor and the Investor Guarantor entered into a bond purchase agreement (the “Bond Purchase Agreement”). Pursuant to the Bond Purchase Agreement, the Investor purchased an exchangeable bond (the “Exchangeable Bond”) issued by Kangda Holdings with a principal amount of HK\$737,164,130, exchangeable into Shares held by Kangda Holdings. The details of the Bond Purchase Agreement and the Exchangeable Bond are set out as follows:

Investor’s Background:	Baring Private Equity Asia V Holding (5) Limited, a limited liability company incorporated under the laws of the BVI on 2 February 2012 and held as to 99.35% by The Baring Asia Private Equity Fund V, L.P. (“Investor Guarantor”), an Independent Third Party. The Investor Guarantor is an Asia focused private equity fund with approximately US\$2.5 billion of commitments under management.
Guarantee of the Investor Guarantor:	The Investor Guarantor irrevocably guaranteed the payment obligations of the Investor and the Investor’s covenants.
Payment date:	The consideration was irrevocably settled by the Investor and received by Kangda Holdings on 24 May 2012.
Agreement date:	24 May 2012
Consideration:	HK\$737,164,130
Interest rate:	On the basis that the Exchangeable Bond will be exchanged on the Listing Date, the Exchangeable Bond bears an interest rate of 18% per annum, compounded semi-annually and deemed accrued for a full period of 30 months after date of the closing of the investment (i.e. 24 May 2012)
Maturity date:	24 May 2015. The maturity date will be automatically extended to 24 May 2016, unless the Investor delivers a maturity redemption notice.

HISTORY AND CORPORATE STRUCTURE

Security:	Kangda Holdings created a share charge over its interest in 2,999 Shares of our Company in favour of the Investor, representing 29.99% of the Company's total issued share capital as at 24 May 2012.
Use of Proceeds:	To effect the Corporate Reorganisation, for general business development related to the Major Business (as defined below), and for expenses related to the Listing. The proceeds have been fully utilised.
Investment cost per Share:	Based on the mid-point of the proposed Offer Price range, the investment cost for per Share exchanged by the Investor under the Bond Purchase Agreement is approximately HK\$1.56 per Share, representing a discount of 35.01% to HK\$2.40 per Share.
Shareholding in our Company upon Listing (Assuming the Over-allotment Option is not exercised and none of the options to be granted under the Share Option Scheme are exercised):	<p>The Exchangeable Bond will be automatically and mandatorily exchanged into the Shares held by Kangda Holdings in our Company immediately prior to the commencement of dealings in the Shares on the Stock Exchange on the Listing Date. The number of Shares into which the Exchangeable Bond is exchangeable shall be the quotient of (i) the amount equal to the principal amount of the Exchangeable Bond and all interest accrued thereon; and (ii) the Offer Price, and rounded up to the nearest whole number.</p> <p>The shareholding percentage of the Investor after the exchange of the Exchangeable Bond shall be at no less than 5.00% but no greater than 29.99% of the then issued Shares of our Company following the completion of the Global Offering and the exchange of the Exchangeable Bond by the Investor in full and assuming that the Over-allotment Option is not exercised. If the exchange of the Exchangeable Bond would result in Investor's Shares being less than 5.00% of the issued Shares of our Company, Kangda Holdings shall, concurrent with the transfer of its Shares upon exchange of the Exchangeable Bond, transfer additional Shares to the Investor in order for the Investor to obtain no less than 5.00% of the issued shares of our Company ("Additional Shares Transfer"). Kangda Holdings is not obliged to transfer, and the Investor is obliged not to accept the transfer of, more than 29.99% of the issued Shares of our Company.</p>

HISTORY AND CORPORATE STRUCTURE

Pursuant to a deed of waiver executed by the Investor on 21 February 2014 in favour of Kangda Holdings, the Investor has absolutely, unconditionally and irrevocably waived any rights it may have against Kangda Holdings to (1) require Kangda Holdings to procure that the shareholding percentage after the exchange of Exchangeable Bond shall be no less than 5.00% of the then issued Shares of our Company (following the completion of the Global Offering and the exchange of the Exchangeable Bond by the Investor in full and assuming that the Over-allotment Option is not exercised); and (2) require Kangda Holdings to effect the Additional Shares Transfer.

The final number of Shares to be exchanged by the Investor will be disclosed in the allotment results announcement to be issued by our Company on or around 3 July 2014.

Basis of determination of consideration:	(i) the uncertainty of whether our Shares would be listed on the Stock Exchange; (ii) the relative value of our Shares, compared to the proposed Offer Price; (iii) the undertaking made by the Investor to not invest in any other entity engaged in the Major Business (as defined below) prior to the Listing and (iv) the strategic benefits to our Group.
Strategic benefits to our Group:	To make further investment into our Company, Kangda Investment and Kangda Hong Kong, to strengthen general business development related to the Major Business (as defined below) and to leverage the rich experience in capital markets and corporate governance of the Investor.
Maturity redemption amount:	An amount being calculated up to the maturity date which gives the Investor an internal rate of 15 per cent per annum on the Exchangeable Bond.
Early redemption upon change of control:	The Investor may redeem the Exchangeable Bond after the issue date of the Exchangeable Bond but prior to the maturity date of the Exchangeable Bond, upon the occurrence of a change of control in respect of Kangda Holdings or our Company. In such event, the redemption price shall equal to the amount which will give the Investor an internal rate of return of 15 per cent per annum on the Exchangeable Bond for the period from the date of issuance of the Exchangeable Bond up to the date of payment.

Pursuant to a deed of waiver executed by the Investor on 21 February 2014 in favour of Kangda Holdings, the Investor has waived any rights it may have against Kangda Holdings in relation to the redemption of the bond upon the occurrence of a change of control of Kangda Holdings or the Company.

HISTORY AND CORPORATE STRUCTURE

- Early redemption upon material default: The Investor may require Kangda Holdings to redeem the Exchangeable Bond at any time prior to the maturity date upon certain material defaults committed by, inter alia, Kangda Holdings, Mr. Zhao Sizhen and our Company including failure of due delivery of Shares following automatic exchange, false or misleading material statements, insolvency or bankruptcy or default in the payment of a material part of its debts. In such event, the redemption price shall equal to the outstanding principal amount of the Exchangeable Bond with an internal rate of return of (i) 15% per annum for redemption on the maturity date; (ii) 15% per annum for event of default caused by force majeure; or (iii) 30% per annum for other events of default, for the period from the date of issuance of the Exchangeable Bond up to the date of payment.
- Reserved Matters: Kangda Holdings and Mr. Zhao Sizhen shall procure that no member of our Group may without prior written consent of the Investor take certain actions including engage in business not related to the Major Business (as defined below), amend its memorandum and articles of association, merge with any other person, dispose of assets in excess of 15% of total assets as provided therein, or acquire or make any investment (other than BT contracts) in excess of 30% of total assets.
- Right of first refusal: Kangda Holdings has granted the Investor a pre-emptive right in whole but not in part with respect to any issuance or disposition of (i) any exchangeable bond issued by Kangda Holdings only that is exchangeable into Shares of our Company, or (ii) any non-redeemable capital stock (with no put or similar redemption right) issued by our Company only ((i) and (ii) individually or collectively, “ROFR Securities”).
- Anti-dilution: Within six months of the closing date, if any ROFR Securities are signed on terms more favourable than that of the Exchangeable Bond (i.e. with higher interest rate), Kangda Holdings shall amend the Exchangeable Bond to match these more favourable terms.

HISTORY AND CORPORATE STRUCTURE

- Non-competition undertaking: For so long as the Exchangeable Bond is outstanding, Mr. Zhao Sizhen and any affiliate of Mr. Zhao Sizhen shall not (i) compete with our Company and its subsidiaries; (ii) directly or indirectly, own, acquire, operate, become an employee of, render services to or participate in the management of or invest in or loan any funds to any person (other than any member of our Group) that is engaged in the investment, construction and operation of municipal waste water treatment, distribution facilities, and related infrastructure and drainage projects in the PRC (the “Major Business”), except for any non-negotiated direct investment in any securities balance of such investment shall at any time not exceed RMB15 million in the aggregate; or (iii) solicit, canvass or entice away any member of our Group to work for or otherwise render services to any person (other than any member of our Group) that is engaged in the Major Business; or (iv) solicit, canvass or entice away any member of our Group (excluding Mr. Zhao Sizhen) to work or otherwise render services to any of Mr. Zhao Sizhen’s non-listed business, regardless whether such non-listed business is engaged in the Major Business.
- The Investor’s covenants: The Investor shall keep any information obtained strictly confidential and shall not disclose to any third party (other than the Investor’s officers, directors and professional advisors on a need-to-know basis) without Kangda Holdings’ written consent. Prior to the initial public offering which is effected prior to the maturity date, the Investor or any of its affiliates shall not directly or indirectly invest in any person (other than any member of our Group) that is engaged in the Major Business.
- Appointment of director: While the Exchangeable Bond remains outstanding, the Investor shall be entitled to appoint one director to the board of directors of our Company, Kangda Investment and Kangda Hong Kong. Mr. Zhuang Ping was appointed by the Investor as a director of each of our Company, Kangda Investment and Kangda Hong Kong on 30 October 2013.
- Information rights: Financial Statements and reports shall be provided to the Investor on quarterly basis. The Investor shall be provided with access to records and accounts.
- Transfer restriction: The Exchangeable Bond may be transferred only upon the written consent of Kangda Holdings.

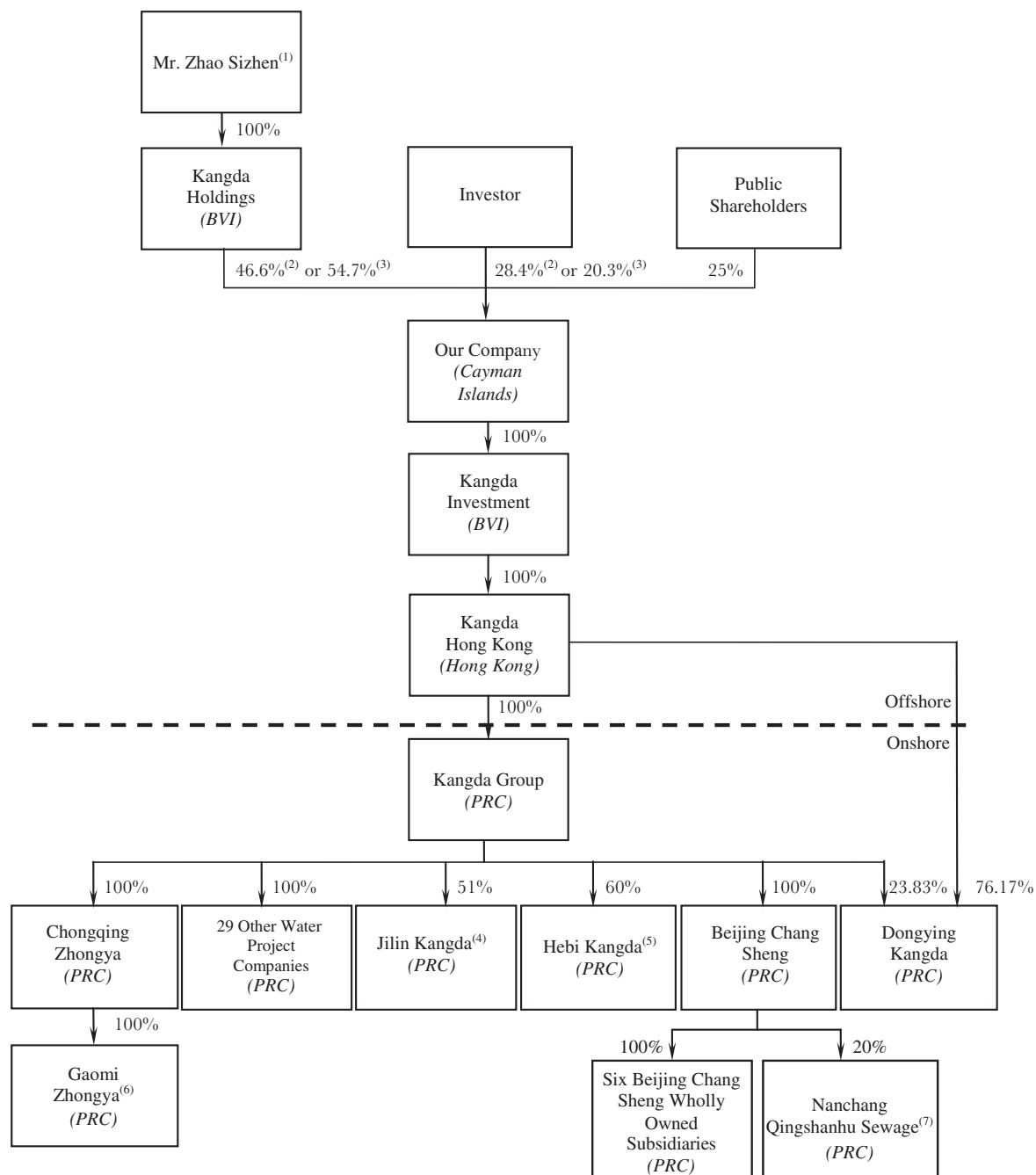
HISTORY AND CORPORATE STRUCTURE

All special rights granted to the Investor are expected to terminate upon the earlier of the Listing Date or the date on which the redemption amount is paid in full. The Bond Purchase Agreement is silent as to whether the Shares held by the Investor will be subject to any lock-up requirements after the Listing. In any event, the Investor agreed that any Shares held by the Investor will be subject to a lock-up for a period of six months after the Listing, the particulars of which are set out in the paragraph headed “Underwriting Arrangements and Expenses” in the section of “Underwriting” in this prospectus. Upon exchange of the Exchangeable Bond, the Investor will become a connected person of our Company and its shareholding in our Company shall not be counted towards the public float of our Company.

The Joint Sponsors have reviewed the relevant information and documentation in relation to the investments of the Investor, including the deed of waiver executed by the Investor on 21 February 2014. On this basis, the Joint Sponsors are of the view that the investments of the Investor in our Company are in compliance with the Interim Guidance on Pre-IPO Investments (HKEX-GL29-12) issued by the Stock Exchange in October 2010 and January 2012, Guidance on Pre-IPO investments (HKEX-GL43-12) issued by the Stock Exchange in October 2012 and updated in July 2013, and Guidance on Pre-IPO investments in convertible instruments (HKEX-GL44-12) issued by the Stock Exchange in October 2012.

HISTORY AND CORPORATE STRUCTURE

Set out below is the shareholding structure of our Group following completion of the Capitalisation Issue, the Global Offering and the exchange of the Exchangeable Bond by the Investor in full (assuming the Over-allotment Option and any options granted under the Share Option Scheme are not exercised):



Notes:

- (1) Pursuant to a confirmation letter dated 18 July 2013 entered into between Mr. Zhao Juanxian and Mr. Zhao Sizhen, Mr. Zhao Juanxian and Mr. Zhao Sizhen have been acting in concert since October 2008. Mr. Zhao Juanxian and Mr. Zhao Sizhen have and will continue to jointly control our Group and Mr. Zhao Juanxian has and will continue to manage our Group's future management and operation, including but not limited to matters regarding business development and marketing strategies, management policies, operation and financial policies, increase or decrease of registered capital, changes related to shareholding and articles of association, investments, joint ventures and external guarantees.

HISTORY AND CORPORATE STRUCTURE

- (2) Assuming the Global Offering is based on an Offer Price at the low-end of the indicative Offer Price range.
- (3) Assuming the Global Offering is based on an Offer Price at the high-end of the indicative Offer Price range.
- (4) The remaining 49% of equity interests in Jilin Kangda were held by Jilin Water, being a substantial shareholder of Jilin Kangda as at the Latest Practicable Date.
- (5) The remaining 40% of equity interests in Hebi Kangda were held as to 30% by Hebi City Water (Group) Co., Ltd.* (鶴壁市城市水務(集團)有限責任公司) and as to 10% by Hebi Baoshan Assets Management Co., Ltd.* (鶴壁市寶山資產管理有限公司), respectively, both being substantial shareholders of Hebi Kangda as at the Latest Practicable Date.
- (6) Gaomi Zhongya was established on 4 July 2011 and held as to 100% by Chongqing Zhongya.
- (7) The remaining 80% of equity interests in Nanchang Qingshanhu Sewage were held by Berlinwater China Holdings Limited (柏林水務中國控股有限公司), being a controlling shareholder of Nanchang Qingshanhu Sewage as at the Latest Practicable Date.

SAFE REGISTRATION

In accordance with the Notice on Relevant Issues of Foreign Exchange Control on Domestic Residents regarding Corporate Financing and Round-Trip Investment through Offshore Special Purpose Vehicles* (《關於境內居民通過境外特殊目的公司融資及返程投資外匯管理有關問題的通知》) (the “SAFE Notice No. 75”) promulgated on 21 October 2005 and which became effective on 1 November 2005, a special purpose vehicle means an offshore enterprise directly established or indirectly controlled by PRC domestic residents (legal persons or individuals) for the purpose of carrying out offshore equity financing with the assets or equity interests they hold in domestic enterprises. For establishing and controlling the offshore special purpose vehicles, PRC domestic residents are required to comply with the SAFE Notice No. 75 registration formalities.

Our PRC legal advisers, Commerce & Finance Law Offices, have advised that Mr. Zhao Sizhen is not subject to the registration requirements of SAFE Notice No. 75 for setting up and holding of relevant offshore enterprises for the Corporate Reorganisation because he is not considered as a PRC domestic resident under the SAFE notice No. 75 by the relevant SAFE authority. Furthermore, although Mr. Zhao Juanxian is deemed as one of our Controlling Shareholders under the Listing Rules based on the confirmation letter of acting in concert dated 18 July 2013, he has not held any Share of our Company. Therefore, our PRC legal adviser, Commerce & Finance Law Offices, is of the view that Mr. Zhao Juanxian is also not subject to the registration requirement under the SAFE Notice No. 75.

THE RULES ON THE MERGER AND ACQUISITION OF DOMESTIC ENTERPRISES BY FOREIGN INVESTORS

Under the Rules on the Merger and Acquisition of Domestic Enterprises by Foreign Investors in the PRC* (《關於外國投資者併購境內企業的規定》) (the “M&A Rules”) which was issued by the MOFCOM and the other five governmental authorities on 8 August 2006 and implemented on 8 September 2006 and was amended by the MOFCOM on 22 June 2009, a foreign investor is required to obtain necessary approvals from the MOFCOM or the department of commerce at the provincial level when it (i) acquires the equity of a domestic enterprise or subscribes for the increased capital of a domestic enterprise so as to convert the domestic enterprise into a foreign-invested enterprise; or (ii) establishes a foreign-invested enterprise through which it purchases the assets of a domestic enterprise and operates these assets or purchases the assets of a domestic enterprise and then invests such assets to establish a foreign invested enterprise (the “Regulated Activities”). Article 40 of the

HISTORY AND CORPORATE STRUCTURE

M&A Regulation requires that an offshore special purpose vehicle formed for the purposes of an offshore listing and controlled directly or indirectly by PRC companies or individuals, shall obtain the CSRC approval prior to the listing and trading of the securities of such offshore special purpose vehicle on an overseas stock exchange.

As advised by our PRC legal advisers, Commerce & Finance Law Offices, (i) we have obtained all necessary approvals required under the M&A Rules for the acquisition of Kangda Group by Kangda Hong Kong; and (ii) as Mr. Zhao Sizhen, one of our Controlling Shareholders of the Company was not a domestic natural person under the M&A Rules at the time of the acquisition of Kangda Group by Kangda Hong Kong and Mr. Zhao Juanxian, as a PRC resident and our Controlling Shareholder under the Listing Rules, has not held any Share of our Company, therefore, Kangda Hong Kong is not the offshore special purpose vehicle controlled by PRC company or individual, and the listing of our Company does not require the approval from the CSRC and the MOFCOM under the current PRC laws.

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OVERVIEW

We are the leading privately-owned company for investing in and operating wastewater treatment facilities in China with the largest total daily wastewater treatment capacity in operation among privately-owned wastewater investment and operation service providers in China as at 31 December 2013, according to Frost & Sullivan. Since 2000, privately-owned companies have gradually gained market share in the PRC wastewater treatment industry, which is currently dominated by state-owned enterprises. As at 31 December 2013, we accounted for approximately 1.0% of the municipal wastewater treatment market in China in terms of daily treatment capacity in operation according to Frost & Sullivan. We offer our customers, who are principally municipal, district or county level governments in China or their designees, customised and integrated wastewater treatment solutions and services mainly through service concession arrangements under BOT and TOT models.

According to Frost & Sullivan, we were among the first privately-owned participants in the wastewater treatment industry in China, with over 18 years of experience in successfully implementing wastewater treatment projects for our customers. We entered into our first wastewater treatment project under the BOT model in 2003, and as at the Latest Practicable Date, we were engaged in the construction and/or operation of a total of 48 wastewater treatment projects under service concession arrangements, including 33 BOT projects and 15 TOT projects, covering 27 cities in nine provinces and directly-administered municipalities in China. The aggregate daily wastewater treatment capacity of our projects in operation was 1,460,000 tonnes as at the Latest Practicable Date. We also had one water supply project as at the Latest Practicable Date. Building upon our early-mover advantage and our strong project execution track record, we believe we have established a reputation as a wastewater treatment provider that delivers high-quality customised services, which we believe has helped us source new projects from both new and existing customers. During the Track Record Period, many of our existing customers have selected us as the wastewater service provider for their expansion projects, and for a majority of our projects in operation that have upgraded their treated wastewater standards during the Track Record Period, we have been selected as the service provider for such upgrade.

We have accumulated significant technical expertise and operational experience in the wastewater treatment industry in China. This enables us to select and adopt advanced wastewater treatment technologies, which we apply to projects of various scales treating different qualities of wastewater. We are not only able to provide our customers with conventional municipal wastewater treatment solutions, but are also experienced in treating municipal wastewater containing industrial pollutants, including wastewater from the textile, pharmaceutical and petrochemical engineering industries. We believe that our experience and accumulated know-how enable us to combine different wastewater treatment processes and, through our collaboration with third party institutes, to develop tailor-made processes to provide cost-effective wastewater treatment solutions to meet our customers' requirements.

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We have adopted a series of results-oriented risk management procedures involving our senior management, operational, technical and financial teams to optimise our project selection and operational efficiency and to secure timely wastewater tariff collection. Please see “— Our Key Operation Centres” for more information. As at 31 December 2011, 2012 and 2013, our average service concession arrangement trade receivables turnover days were 34.3, 37.4 and 32.0 days, respectively.

The PRC Government is committed to investing in the wastewater treatment industry in China and has adopted favourable policies applicable to the industry. According to Frost & Sullivan, the PRC Government plans to invest in wastewater treatment facilities across all municipality levels, with a particular focus on small- and medium-sized cities. We have extensive experience in providing wastewater treatment services, particularly in small- and medium-sized cities, which we believe, together with our strong market position, will position us well to capitalise on the strong growth opportunities in our industry.

Our total revenue grew during the Track Record Period, from RMB734.9 million in 2011 to RMB999.3 million in 2012 and to RMB1,339.7 million in 2013, representing a CAGR of 35.0%. Our profit grew during the Track Record Period, from RMB156.9 million in 2011 to RMB197.4 million in 2012 and to RMB232.6 million in 2013, representing a CAGR of 21.8%.

Project Models

We are primarily engaged in providing customised and integrated wastewater treatment solutions and services in the PRC under service concession arrangements under BOT and TOT models. In addition, during the Track Record Period, we also derived revenue from the provision of municipal infrastructure construction services of facilities ancillary to wastewater treatment facilities, which we typically conducted under the BT model. As a result of our decision to increase our focus on service concession arrangements, we do not intend to enter into any new BT projects in the foreseeable future. Please see “— BT Arrangements” for further details.

BOT Projects

We primarily undertake BOT projects by investing in the design and construction of operating wastewater treatment facilities for a concession period, which generally ranges from 25 to 30 years. Prior to bidding for a BOT project, we carefully assess the customer’s financial condition, payment capability, reputation and the project’s environmental impact. We fund all of the project costs incurred during the design, construction and operation phases from our internal resources, including cash from operations, issuance of shares and external bank loans. We do not receive any payments from our customers during the construction phase of our BOT projects, and only receive fee payments for operating the wastewater treatment facilities during the project’s concession period following completion of construction. Such fee payments are based on a guaranteed minimum treatment volume together with an additional tariff for any wastewater treated in excess of the minimum treatment volume. Upon the expiration of the concession period, we are required to transfer the facility to our customer for nil consideration.

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TOT Projects

We also acquire constructed wastewater treatment facilities from local governments, their designees or other third parties, which we operate during the term of the concession, typically ranging from 25 to 30 years. Similar to our BOT projects, we also assess the customer's financial condition, payment capability, reputation and the project's environmental impact. In addition, we conduct detailed due diligence to better understand the target wastewater treatment facilities, including the condition of the facilities and historical financial condition. We generally seek to acquire projects which offer opportunities for future facility expansion or upgrade. After acquisition, our customers transfer to us the constructed facilities and grant us concession rights for a certain consideration, which we pay prior to a pre-determined date or by instalments as stipulated in the agreements. During the concession period, we receive regular fee payments in accordance with the terms of the agreements, which usually include a guaranteed tariff based on a guaranteed minimum wastewater treatment volume and an additional tariff for wastewater treated in excess of the minimum treatment volume. Upon the expiration of the concession period, we are required to transfer the facility to our customer for nil consideration.

BT Projects

In addition, during the Track Record Period, we invest in the design and construction of municipal infrastructure or infrastructure ancillary to wastewater plants under a BT project model. During the Track Record Period, we carried out the Kaifeng BT project, Wendeng BT project, Gaomi BT project and Jilin BT project. For our BT projects, we pay for the design and construction of the facilities ancillary to wastewater treatment facilities and other municipal infrastructure. These ancillary facilities included roads, pipe networks and drainage systems. During the Track Record Period, we undertook BT projects in areas we believed to have potential for us to enter into service concession arrangements for wastewater treatment facilities in the future. Upon completing the construction and final acceptance tests for each phase of the construction of our BT projects, we commence discussions with our customers to determine the total consideration payable to us for the respective construction phase. Our customers will commence the repurchase of the particular phase of the project after we enter into a repurchase agreement with them. The repurchase period is generally spread out over three to four years, with the consideration payable to us in instalments over that period. The ownership of the project will be transferred to our customers according to the proportion of the repurchase price paid by them and the title of the facilities will only be fully transferred to our customers upon receipt of the entire project fee by us.

As at the Latest Practicable Date, our customers had commenced the repurchase process for three of our BT projects and we were in repurchase discussions with respect to the fourth project, Jilin BT project. We do not intend to engage in new BT projects in the future as a result of our decision to increase our focus on service concession arrangements. For the years ended 31 December 2011, 2012 and 2013, our BT projects accounted for 24.9%, 29.3% and 22.5% of our total revenue and 20.4%, 24.7% and 16.0% of our gross profit, respectively. For further details, please see section headed "— BT Arrangements".

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O&M Projects, Other Construction Service Projects and Other Water Treatment Services

During the Track Record Period, we provided O&M services to Independent Third Parties. Under the O&M project model, we operate and maintain our customers' existing wastewater treatment facilities, which have already been constructed, in exchange for a pre-determined fee for a period that generally ranges from one to five years. We are not required to invest in the facilities for these projects. We also provided sewage and reclaimed water treatment and construction services for some of our other customers. Revenue generated from our O&M projects, other construction service projects and other water treatment services was not significant during the Track Record Period.

Accounting Treatment

The accounting treatment of our projects varies by project format. Our BOT and TOT projects are service concession arrangements under IFRIC Interpretation 12. In accordance with IFRIC Interpretation 12, the wastewater treatment projects under the service concession arrangements are classified as financial assets (financial receivables) as the investments by our Group under these service concession arrangements are covered by a payment commitment from the grantors. The fair value of the consideration given by the grantors under our service concession arrangement projects was determined with reference to the guaranteed minimum tariff as stipulated in the relevant service concession agreements. There were certain projects that were operating with additional waste water treatment in excess of the minimum guaranteed volume, however, this situation is non-routine and has great uncertainty to predict and it is not probable that any expected future economic benefits that are attributable to the asset will flow to our Group. Since the volume of wastewater applied to calculate the minimum guaranteed tariff stipulated in the relevant service concession agreement generally covers a high percentage of the designed wastewater treatment capacity of the relevant facility (in general, the volume of wastewater applied to calculate the minimum guaranteed tariff is approximately 60% to 80% and 90% to 100% of the designed wastewater treatment capacity of a relevant facility in the first and fourth or fifth year of the relevant facility's operation, respectively), our initial investments for service concession arrangement projects generally could be recovered through the guaranteed minimum tariff of a relevant project and thus, our investment in such projects is accounted for as financial assets (financial receivables) and no remainder is recognised as intangible assets in accordance with IFRIC Interpretation 12. We initially recognise our financial assets (financial receivables) at fair value plus transaction costs that are attributable to the acquisition of the financial assets. After initial measurement, financial assets (financial receivables) are subsequently measured at amortised cost using the effective interest rate method less any allowance for impairment. The effective interest rate is determined in accordance with the PBOC rate on the execution date of the relevant project's concession agreement.

We typically only receive payment in connection with the revenue recognised during the construction phase of our BOT projects on receipt of cash payments during the operational phase of these BOT projects, and therefore, we generally do not receive payment for construction services and cash inflow during the construction phase of such BOT projects even though we record revenue during the construction phase.

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For further details of our accounting treatment, please refer to the sections headed “Financial Information — Critical Accounting Policies, Estimates and Judgments” and “Financial Information — Principal Income Statement Components — Revenue” in this prospectus.

OUR COMPETITIVE STRENGTHS

We believe that the following strengths contributed to our leading position in China’s wastewater treatment industry.

We are the leading privately-owned company for investing in and operating wastewater treatment facilities in China, and are well-positioned to benefit from significant growth opportunities in the wastewater treatment industry in China.

We are the leading privately-owned company for investing in and operating wastewater treatment facilities with the largest total daily wastewater treatment capacity in operation among privately-owned wastewater treatment investment and operation service providers in China as at 31 December 2013. The aggregate daily wastewater treatment capacity of our projects in operation was 1,460,000 tonnes, as at the Latest Practicable Date. As at the same date, the daily wastewater treatment capacity of our projects pending operation was 457,000 tonnes.

According to Frost & Sullivan, we were among the first privately-owned participants in the wastewater treatment industry in China with 18 years of experience of successfully implementing wastewater treatment projects. We entered into our first wastewater treatment project under BOT model in 2003, and as at the Latest Practicable Date, we were engaged in a total of 48 wastewater treatment projects under service concession arrangements, including 33 BOT projects and 15 TOT projects, covering 27 cities in nine provinces and directly-administered municipalities in China. We also had one water supply project as at the Latest Practicable Date. We have won numerous awards in recognition, which we believe have helped us develop a reputation for providing high-quality customised wastewater treatment solutions to our customers. Our awards include the “Core Enterprise of China Association of Environmental Protection Industry”* (中國環境保護產業骨幹企業) award for 2012 and 2010 issued by the China Association of Environmental Protection Industry* (中國環境保護產業協會) in 2013 and 2011, respectively, and the “AAA Rating Enterprise Certificate” (AAA級企業信用等級證書) issued by the China Association of Environmental Protection Industry in 2012. Furthermore, we are one of the few privately-owned wastewater service providers to be granted the national class A qualifications as a general contractor for municipal construction and for both industrial and municipal wastewater treatment, which we believe have enhanced our ability to obtain large-scale wastewater treatment projects.

Our industry presents significant growth potential. The PRC Government is committed to investing in and has adopted favourable policies toward the wastewater treatment industry in China. According to Frost & Sullivan, the PRC Government plans to invest in wastewater treatment facilities across all municipality levels, with a particular focus on small- and medium-sized cities. According to Frost & Sullivan, the total wastewater treatment capacity of counties is expected to grow by approximately 50% during the 12th Five-Year Plan. We believe our substantial experience in providing wastewater treatment services, particularly in small- and medium-sized cities, together with our strong market standing, positions us well to capitalise on the strong growth opportunities in our industry.

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We have strong project sourcing capabilities and a systematic assessment mechanism for new projects.

Our strong project execution track record and market position have helped us source new projects and expand our customer base. We believe our successful project execution and implementation has enabled us to rapidly expand our operations within a region from one project to other projects in nearby towns and cities. For example, we engaged our first wastewater treatment project in Shandong Province in 2004 and, as at the Latest Practicable Date, we had expanded to engage 22 projects in Shandong Province. With our current market position, local knowledge and proven track record, we believe we enjoy competitive advantages over new entrants in many of our existing geographical markets, which have enabled us to take advantage of the enhancement of environmental protection standards in the PRC. During the Track Record Period, many of our existing customers have selected us as the wastewater service provider for their expansion projects, and for a majority of our projects in operation that have upgraded their treated water standards during the Track Record Period, we have been selected as the service provider for the upgrade projects.

Our business expansion initiatives also include the acquisition of existing businesses with attractive portfolios of proven wastewater treatment projects. In the first half of 2013, we completed the acquisition of Beijing Chang Sheng. This acquisition expanded our wastewater treatment capacity, adding six projects with an aggregate daily wastewater treatment capacity in operation and pending operation of 130,000 tonnes, as well as a 20% equity interest in a joint venture with a daily wastewater treatment capacity of 500,000 tonnes in operation. We believe that our experience and success with respect to this acquisition demonstrate our ability to identify and execute acquisitions of targets in our industry and also enhanced our standing in the market, positioning us well to identify potential acquisition targets and successfully implement further acquisitions in the future.

In addition to our project sourcing capability, we believe that our systematic assessment mechanism for new projects, including our risk control management system, contributed to our success. We apply a set of stringent commercial criteria in screening potential projects to assess the estimated return and potential risks, and analyse factors such as a potential customer's financial condition, payment capability and reputation, as well as the potential for future project expansion and upgrade.

We offer our customers integrated, customised and high-quality wastewater treatment solutions.

We focus on providing integrated, customised and high-quality wastewater treatment solutions to our customers in a cost-effective manner. We have accumulated extensive technical expertise and operational experience in successfully executing projects of different scales, ranging from 10,000 tonnes to 150,000 tonnes of daily treatment capacity in operation, and treating wastewater containing different pollutants, including wastewater from the textile, pharmaceutical and petrochemical industries. Therefore, we are familiar with a wide variety of wastewater treatment techniques, which we apply in our existing portfolio of diversified projects and have extensive experience with such techniques' practical function as demonstrated by actual operation results.

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At the early stages of our projects, we closely communicate with our customers, analysing and understanding their needs and analyse the wastewater our facilities are to treat. When needed, we collaborate with Independent Third Party institutes to conduct tests on the major sources of the primary pollutants in inflow wastewater and prepare designs to achieve the most appropriate wastewater treatment solution. Leveraging our in-depth knowledge and practical experience in applying various technologies, we combine and integrate different wastewater treatment processes into our projects, aiming to develop cost-effective wastewater treatment solutions appropriate project. Our tailor-made solutions aim to ensure the treated wastewater from our facilities meet required standards while controlling our construction and operation costs, thus achieving both environmental and economic benefits for both ourselves and our customers.

We have well-designed management systems that enhance our operational efficiency and have established a track record of timely wastewater tariff collection.

We adopt result-oriented procedures to enhance our operational efficiency, control our costs and secure timely wastewater tariff collection. We regularly review the progress of our projects against budget, during both the construction and operational phases, stressing the importance of reducing operating costs while maintaining service quality. We also continually track the progress and the performance of our project teams with a view to identifying areas for further improvement in the efficiency of our operations. We adopt incentives for our staff which reward them for achieving cost control targets. We believe this approach contributed to our success in improving the operational efficiency of our projects' costs and aligning our employees' interests with our own.

In addition, throughout the project lifespan, we focus on ensuring timely fee collection from our customers. At the project selection stage, we carefully evaluate the financial position of our customers and seek endorsement of our projects before commencement from relevant government authorities to reduce the potential risk of subsequent variation to payment terms. During the contract negotiation stage, we also seek to ensure that our project agreements provide for regular and timely payment by our customers and appropriate fee adjustment mechanisms to accommodate future changes in our costs and project circumstances. During the project operation stage, we closely monitor our customers' compliance with agreed payment schedules. We also incentivise our project managers to maintain close communication with our customers to ensure timely collection of service fees by including in their performance and compensation assessment a review of their collection period. These measures enabled us to achieve our average service concession arrangement trade receivables turnover days of 34.3, 37.4 and 32.0 days as at 31 December 2011, 2012 and 2013, respectively.

We have a dedicated management team supported by experienced, proactive professionals and workforce, as well as a positive corporate culture.

The extensive industry knowledge, experience and operational expertise of our management team, including Mr. Zhao Juanxian, Ms. Liu Zhiwei, Mr. Gu Weiping and Mr. Liang Zuping, have contributed to our results-driven culture which emphasizes quality, efficiency and market responsiveness. Mr. Zhao Juanxian, our chairman and executive Director, has over 25 years of experience in the environmental protection industry and possesses extensive knowledge of business management, marketing, investment and strategic planning. Having worked in China's environmental protection industry and the state-owned sector for many years before establishing our company, Mr.

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Zhao Juanxian possesses a deep understanding of the environmental protection industry in China. Mr. Zhao Juanxian has obtained a number of awards in recognition of his extensive industry experience. For example, he was appointed as the Vice President of the Third and Fourth Council of the China Association of Environmental Protection Industry by the China Association of Environmental Protection Industry for consecutive four-year terms from 2005 to 2013. He was also awarded the “China Environmental Protection Industry Contribution Award to (Enterprise) Development”* (中國環境保護產業(企業)發展貢獻獎) by the China Association of Environmental Protection Industry in 2005 and 2009 and the “Outstanding Individual”* (傑出個人) award by the Chongqing Municipal People’s Government in 2006. Please see the section headed “Directors and Senior Management” for more information.

In addition, our core management team has been stable during the Track Record Period, and have an average of 10 years of management experience. We benefit significantly from the accumulated expertise and hands-on experience of our project managers and technical staff. We believe that these individuals enable us to continue to improve the efficiency of our operations and our ability to satisfy our customers’ requirements. We believe we have developed a corporate culture that promotes collaboration, efficiency, motivation, responsibility and achievement, which enables us to take advantage of market opportunities, formulate sound business strategies and execute them effectively. We are also dedicated to attracting and retaining highly-skilled professionals and consistently invest in them through training.

OUR STRATEGIES

We aim to maintain our position as a leading privately-owned wastewater treatment service provider in China. The principal strategies that we have adopted to attain this goal include the following:

Continue to solidify our leading position in the industry by expanding our existing project portfolio and extending our geographic reach.

We intend to continue to focus on providing integrated, customised and high-quality wastewater treatment services and expand our operations organically to increase our recurring earnings stream through our service concession arrangement projects. We received a substantial amount of repurchase consideration from our BT projects in 2013, and we applied such repurchase proceeds to invest in service concession arrangement projects. We intend to continue to secure additional BOT and TOT projects in cities where we have existing projects and in nearby cities, leveraging our familiarity with the region, the participants in the local market and our brand recognition. We believe that this strategy has enabled us to realise economies of scale in a particular region. We also believe that the relationships we have developed with our customers will position us to win expansion or upgrade projects in regions where we currently operate. We also intend to expand our business by continuing to grow our geographic footprint, focusing on potential opportunities in developing areas in China which meet our stringent project selection criteria and offer attractive returns under BOT or TOT project models. Furthermore, given recent enhancements to environmental standards in China, the

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PRC Government plans to invest in wastewater treatment facilities, particularly in small- and medium-sized cities. We have extensive experience in providing wastewater treatment service in such locations and we believe both our strong market position and wastewater treatment expertise position us well to capitalise on the strong growth opportunities in our industry.

Continue to pursue selective business acquisition opportunities.

We intend to continue to complement our organic growth by pursuing a disciplined and targeted acquisition strategy to strengthen our market position and enhance our competitiveness. We will focus on opportunities with potential to increase our aggregate wastewater treatment capacity, and give us access to new markets and customer relationships. We believe that our enhanced industry profile following the successful acquisition and integration of Beijing Chang Sheng will help us identify and engage other potential acquisition targets. We believe we are well positioned to replicate our experience in quickly implementing our systematic project management approach in Beijing Chang Sheng and its subsidiaries following our acquisition to enhance our operational efficiency and effectively integrate companies we acquire in the future. We will continue to focus on acquiring companies with projects which offer attractive rates of return, sound risk profiles and opportunities for improvement in efficiency. As of the Latest Practicable Date, we had not entered into any letter of intent or agreement for such acquisition nor identified any definite acquisition target.

Continue to strengthen our technical capabilities and project management to further improve our operational efficiency.

We believe that a continued commitment to development of our technical capabilities forms an important part of our strategy to strengthen our leading position in the wastewater treatment industry. We intend to continue to leverage our technical expertise and broad experience to develop practical, tailor-made project designs and deliver effective wastewater treatment solutions to our customers.

We intend to continue to collect and analyse data regarding the operation of our projects with a view to continually improving the efficiency and profitability of our operations. We also seek to strengthen our monitoring capability of pollutant levels in the wastewater we treat during our treatment process and to improve treated water quality standards in a more cost-effective manner. Furthermore, we seek to increase oversight of the implementation of our project cost budgets by our audit and supervision personnel to increase our rates of return. In addition, we intend to analyse project performance to identify opportunities to enhance our project cost budgeting.

Expand into other business activities ancillary to wastewater treatment to capitalise on developments in the industry value chain.

Leveraging our experience and profile in the wastewater treatment industry, we intend to expand our operations into other business activities that are ancillary to wastewater treatment, such as reclaimed water for industrial or other uses and sludge treatment. We have already begun our entry into the reclaimed water industry through smaller scale projects with a view toward further expansion. In addition, we plan to provide sludge treatment at wastewater treatment facilities in locations where sludge treatment is encouraged by favourable local governmental policy. To capitalise on opportunities offered by such development, we are in the process of conducting research on the

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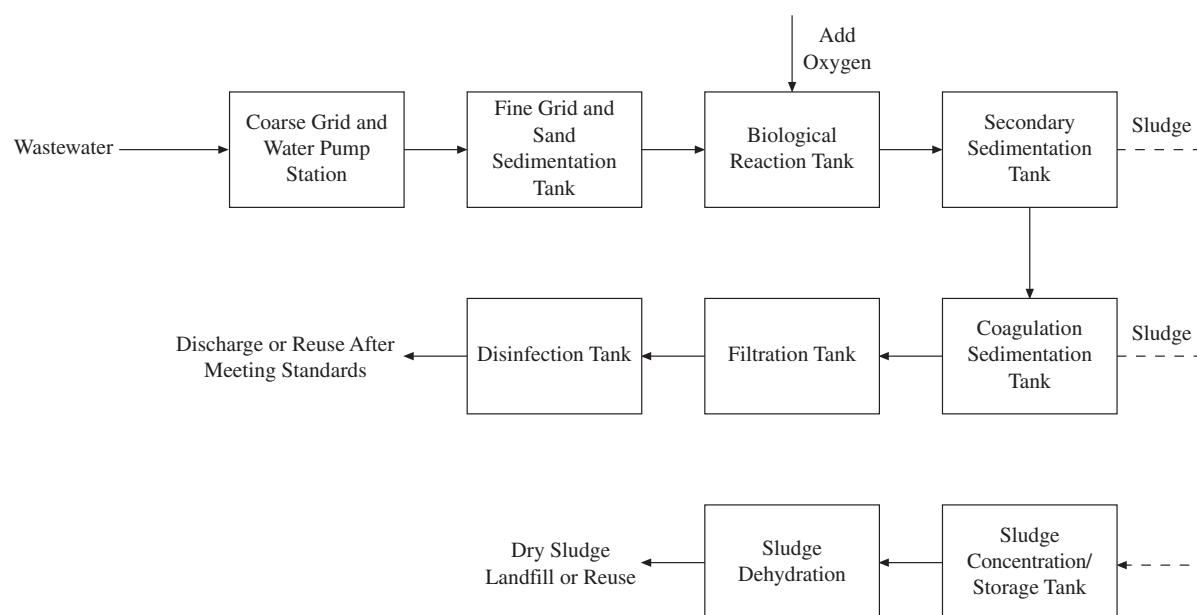
provision of sludge treatment services, including, among others, the qualifications and requirements applicable to both entities and personnel that engage in the provision of such services. We believe a better understanding of the applicable rules and regulations will be the first step in helping us expand into the sludge treatment business. In addition, we have also engaged an industry expert, Frost & Sullivan, to conduct market research and competitive landscape analysis on the sludge treatment. Furthermore, we believe providing sludge treatment will add value to our existing services and diversify our revenue streams from selected wastewater treatment projects, and we believe we will be able to capitalise on our project management experience and technical expertise to adapt our processes to such new business. As at the Latest Practicable Date, we are in the process of planning our expansion into sludge treatment service but have not yet finalised the details of such plans.

Continue to strengthen our talent base through enhanced recruiting and training programs.

We believe our ability to continue to recruit and retain capable and motivated managerial, technical and other employees is critical to our success. As our managerial, technical and other employees manage our projects and interact with our contractors and customers on a regular basis, they are vital to maintaining the high-quality and consistency of our service offering and our reputation in the industry. We, therefore, aim to recruit quality talent in China. In addition, we seek to continue to develop and incentivise our talent base by encouraging and acknowledging the contributions of all of our employees and developing leadership qualities while working on our many projects. We also encourage our personnel to continue developing their substantive skills through continuing education programs.

WASTEWATER TREATMENT PROCESS

We focus on the provision of municipal wastewater treatment services. Our typical wastewater treatment process is illustrated below:



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Municipal wastewater usually contains phosphorus and organic matter which is generally treated using physical, biological and chemical processes before it is discharged to the environment. There are significant differences in the nature and quantity of pollutants contained in municipal wastewater in different regions. Thus, we adopt various processes to treat municipal wastewater based upon our analysis of the following factors: (i) the composition of the wastewater; (ii) the standards to be achieved for the treated wastewater; (iii) the quantity of wastewater to be treated; and (iv) conditions for construction and the impact on the surrounding environment. Different techniques can be combined to maximise the effect of treatment and reduce treatment costs. Our wastewater treatment process generally involves the following stages:

- the first stage generally comprises a physical process that includes the settling of particles matter in the wastewater;
- the second stage involves biological treatment, where acclimated microbial flora may be introduced to reduce Nitrogen, COD, BOD, TN and TP levels; and
- the third stage refers to advanced chemical treatment, which may involve phosphorus removal, mixing and settling, filtration and high-level oxidation.

The core technology of the biological treatment stage is activated sludge technology, which is a process for treating wastewater through creating artificial aerobic and anaerobic environment in which bacteria and protozoa can be cultured to purify wastewater. The general arrangement of an activated sludge process for removing pollutants includes: (i) pre-treatment; (ii) biological treatment when oxygen is injected into the mixed liquid, thus purifying the main pollutants in the wastewater by microbial flora; (iii) settling tank to allow the biological flocculents to settle, and thus, separating the biological sludge from the clear treated water, and (iv) treatment of nitrogenous matter or phosphates.

OUR PROJECT MODELS

As at the Latest Practicable Date, we were engaged in 48 wastewater treatment projects under service concession arrangements, four BT projects, one O&M project, other construction service projects and other water treatment services. Our wastewater treatment projects (including projects pending operation) included 33 BOT projects and 15 TOT projects covering 27 cities in nine provinces and directly-administered municipalities in China. As at the Latest Practicable Date, the total designed wastewater treatment capacity of our wastewater treatment projects was 2,694,000 tonnes/per day. We also had one water supply project as at Latest Practicable Date.

The average investment payback period of our service concession arrangement projects is generally eight to 10 years from the commencement of construction of our BOT projects and from our acquisition of our TOT projects, respectively.

OUR PROJECT LIST

The following table sets forth our projects under the service concession arrangements that are in and pending operation.
Service Concession Arrangement Projects in Operation as at 31 May 2014

Project	Location	Commencement of Operation	Granted Concession Period (Years)	End of Concession Period (Month/Year)	Water Quality of Treated Wastewater	Daily Treatment Capacity in Operation (m ³ /tonnes per day)	Guaranteed Minimum Treatment Volume (m ³ /tonnes per day)	Types of Wastewater Treated
BOT Model								
1	Feng County Wastewater Treatment Plant*	January 2006	25	December 2030 ⁽¹⁾	Class I Standard A	20,000	20,000	municipal wastewater
2	Gaomi No. 2 Wastewater Treatment Plant ⁽²⁾	April 2006	25	April 2031	Class I Standard B	50,000	50,000	municipal wastewater with industrial pollutant
3	Beijing Daxing District Caiyu Town Economic Development Zone Wastewater Treatment Plant**	September 2006	30	September 2036	Beijing Water Pollutants Discharge Standard III	15,000	10,000	municipal wastewater
4	Gaomi No. 2 Wastewater Treatment Plant ⁽²⁾	October 2008	25	October 2033	Class I Standard B	50,000	50,000	municipal wastewater with industrial pollutant
5	Anhui Jixi Wastewater Treatment Plant** ⁽³⁾	June 2009	30	April 2038 ⁽⁴⁾	Class I Standard B	15,000	13,500	municipal wastewater
6	Feng County Wastewater Treatment Plant	July 2009	25	July 2034	Class I Standard A	20,000	20,000	municipal wastewater
7	Jiaozuo City Wastewater Treatment Plant*	July 2009	26	July 2035	Class I Standard A	100,000	100,000	municipal wastewater
8	Linyi Nanfang Wastewater Treatment Plant**	August 2009	25	August 2034	Class I Standard B	40,000	36,000	municipal wastewater
9	Jiaozuo City Industrial Park Wanfang Wastewater Treatment Plant	December 2009	26	December 2035	Class I Standard B	25,000	25,000	municipal wastewater with industrial pollutant
10	Hebei Daicheng Wastewater Treatment Plant** ⁽³⁾	February 2010	25	February 2035	Class I Standard A	15,000	15,000	municipal wastewater
11	Anhui Ningguo Wastewater Treatment Plant** ⁽³⁾	March 2010	30	March 2039 ⁽⁴⁾	Class I Standard B	40,000	40,000	municipal wastewater
12	Weifang Yube Wastewater Treatment Plant ⁽⁵⁾	September 2010	30	September 2040	Class I Standard B	100,000	70,000	municipal wastewater with industrial pollutant
13	Shangqiu Wastewater Treatment Plant	October 2010	30	October 2040	Class I Standard A	100,000	100,000	municipal wastewater
14	Anhui Chaohu Economic Development Zone Huashan Wastewater Treatment Plant ⁽³⁾	October 2010	30	October 2039 ⁽⁴⁾	Class I Standard A	10,000	10,000	municipal wastewater
15	Gaomi Third Wastewater Treatment Plant ⁽⁵⁾	May 2011	25	May 2036	Class I Standard B	25,000	25,000	municipal wastewater with industrial pollutant
16	Feng County Economic Development Zone Wastewater Treatment Plant**	July 2012	29	July 2041	Class I Standard A	20,000	20,000	municipal wastewater with industrial pollutant
17	Shandong Yucheng No. 2 Wastewater Treatment Plant ⁽³⁾	July 2013	25	July 2038	Class I Standard A	30,000	20,000	municipal wastewater with industrial pollutant
18	Shangqiu Liangyuan Industrial Park Wastewater Treatment Plant**	January 2014	25	January 2039	Class I Standard A	20,000	13,000	municipal wastewater with industrial pollutant
19	Shandong Rushan Residential Wastewater Treatment Plant*	January 2014	27	December 2041	Class I Standard A	20,000	10,000	municipal wastewater
TOT Models								
20	Shandong Haiyang Wastewater Treatment Plant ⁽⁶⁾	November 2005	22	November 2027	Class I Standard B	20,000	20,000	municipal wastewater
21	Anhui Suzhou Chengnan Wastewater Treatment Plant I	October 2006	28	N/A ⁽⁷⁾	Class II	80,000	70,000	municipal wastewater
22	Jiaozuo City Wastewater Treatment Plant	November 2006	26	November 2032	Class II	100,000	100,000	municipal wastewater

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Project	Location	Commencement of Operation	Granted Concession Period (Years)	End of Concession Period (Month/Year)	Water Quality of Treated Wastewater	Daily Treatment Capacity in Operation (m ³ /tonnes per day)	Guaranteed Minimum Treatment Volume (m ³ /tonnes per day)	Types of Wastewater Treated
23	Shangqiu Wastewater Treatment Plant	Phase I	30	May 2037	Class I Standard B	80,000	80,000	municipal wastewater
24	Shandong Guangrao Wastewater Treatment Plant ⁽⁸⁾	Phase I	26	September 2034	Class I Standard B	50,000	50,000	municipal wastewater with industrial pollutant
25	Linying Wastewater Treatment Plant	Phase I	30	September 2038	Class I Standard B	30,000	30,000	municipal wastewater
26	Tianjin Ninghe Wastewater Treatment Plant**	Phase I	30	March 2041	Class I Standard B	30,000	30,000	municipal wastewater
27	Heilongjiang Harbin Hejiagou Qunli Wastewater Treatment Plant	Phase I	30	September 2041	Class I Standard B	150,000	150,000	municipal wastewater with industrial pollutant
28	Gaomi City Wastewater Treatment Plant	Phase I	30	September 2041	Class I Standard B	35,000	30,000	municipal wastewater
29	Shandong Rushan Industrial Wastewater Treatment Plant	Phase I	30	December 2041	Class I Standard B	20,000	15,000	municipal wastewater with industrial pollutant
30	Shandong Rushan Residential Wastewater Treatment Plant*	Phase I	30	December 2041	Class I Standard A	20,000	20,000	municipal wastewater
31	Wugang Zhulan Wastewater Treatment Plant	Phase I	30	November 2042	Class I Standard A	20,000	18,000	municipal wastewater
32	Anhui Suzhou Chengnan Wastewater Treatment Plant 2	Phase I	25	N/A ⁽⁹⁾	Class I Standard A	80,000	40,000	municipal wastewater
33	Hua Dian Wastewater Treatment Plant	Phase I	30	February 2044	Class I Standard B	30,000	20,000	municipal wastewater
Total						1,460,000	1,320,500	

Notes:

- * This project has been upgraded.
- ** The future expansion of such project is already granted by signed contract.
- (1) The granted concession period is fixed from January 2006 to December 2030.
- (2) We are upgrading water quality of treated wastewater to Class I Standard A, and expect to finish the upgrade by August 2014.
- (3) We obtained the project through the acquisition of Beijing Chang Sheng. After the acquisition we started to operate the wastewater treatment plant and did not construct the project.
- (4) The granted concession period started from the date of commencement of construction.
- (5) We are upgrading water quality of treated wastewater to Class I Standard A, and expect to finish the upgrade by July 2014.
- (6) In October 2010, we entered into an agreement with the local government and the ex-grantee, an Independent Third Party, for a consideration of RMB20,500,000. Accordingly, we obtained the project and hence, the concession right.
- (7) According to the relevant agreements for Anhui Suzhou Chengnan Wastewater Treatment Plant 1, the concession period commences following the completion of the testing and trial of the wastewater treatment plant at a volume of 80,000 tonnes per day. As at 31 May 2014, the wastewater supplied to our treatment plant had not reached 80,000 tonnes per day. As a result, our concession period had not commenced.
- (8) We are upgrading water quality of treated wastewater to Class I Standard A, and the construction was completed as at 31 March 2014. We are applying for the approval of operation commencement from government authorities.
- (9) According to the relevant service concession agreement for Anhui Suzhou Chengnan Wastewater Treatment Plant 2, the concession period commences following the transfer of the wastewater treatment plant to us from our customer. As at 31 May 2014, the project was in the process of being transferred to us, and as a result, the concession period had not commenced. However, we have commenced operation of the wastewater treatment plant and have begun to collect wastewater tariff during the transfer period.

The table below sets forth the utilisation rate for our service concession arrangement projects that were in operation during the Track Record Period.

Project	2011		2012		2013	
	Average Daily Charged Wastewater Volume ⁽¹⁾ (000'm ³ /day)	Utilisation Rate (%) ⁽²⁾	Average Daily Charged Wastewater Volume ⁽¹⁾ (000'm ³ /day)	Utilisation Rate (%) ⁽²⁾	Average Daily Charged Wastewater Volume ⁽¹⁾ (000'm ³ /day)	Utilisation Rate (%) ⁽²⁾
BOT Models						
1	Feng County Wastewater Treatment Plant	Phase I	20.0	100.0	20.0	100.0
2	Gaomi No. 2 Wastewater Treatment Plant	Phase I	51.1	102.3 ⁽³⁾	50.0	100.0
3	Beijing Daxing District Caiyu Town Economic Development Zone Wastewater Treatment Plant	Phase I	10.0	66.7	10.0	66.7
4	Gaomi No. 2 Wastewater Treatment Plant	Phase II	51.1	102.3 ⁽³⁾	50.0	100.0
5	Anhui Jixi Wastewater Treatment Plant	Phase I	—	—	—	95.2
6	Feng County Wastewater Treatment Plant	Phase II	20.0	100.0	20.0	100.0
7	Jiaozuo City Wastewater Treatment Plant	Phase II	100.0	100.0	100.0	100.0
8	Linyi Nanfang Wastewater Treatment Plant	Phase I	29.4	73.5	33.4	83.4
9	Jiaozuo City Industrial Park Wanfang Wastewater Treatment Plant	Phase I	24.4	97.7	25.0	100.0
10	Hebei Dacheng Wastewater Treatment Plant	Phase I	—	—	—	99.1
11	Anhui Ningguo Wastewater Treatment Plant	Phase I	—	—	—	100.0
12	Weifang Yuhe Wastewater Treatment Plant ⁽⁴⁾		103.5	103.5 ⁽³⁾	101.7	101.7 ⁽³⁾
13	Shangqiu Wastewater Treatment Plant	Phase II	92.6	92.6	100.0	100.0
14	Anhui Chaohu Economic Development Zone Huashan Wastewater Treatment Plant ⁽⁵⁾	Phase I	—	—	—	76.5
15	Gaomi Third Wastewater Treatment Plant	Phase I	22.5	90.1	24.7	98.8
16	Feng County Economic Development Zone Wastewater Treatment Plant	Phase I	—	—	18.0	90.0
17	Shandong Yucheng No. 2 Wastewater Treatment Plant	Phase I	—	—	—	89.1

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Project	2011		2012		2013	
	Average Daily Charged Wastewater Volume ⁽¹⁾ (000 ³ m ³ /Tonnes per day)	Utilisation Rate (%) ⁽²⁾	Average Daily Charged Wastewater Volume ⁽¹⁾ (000 ³ m ³ /Tonnes per day)	Utilisation Rate (%) ⁽²⁾	Average Daily Charged Wastewater Volume ⁽¹⁾ (000 ³ m ³ /Tonnes per day)	Utilisation Rate (%) ⁽²⁾
TOT Models						
18	Shandong Haiyang Wastewater Treatment Plant	20.5	102.6 ⁽³⁾	20.2	101.0 ⁽³⁾	100.0
19	Anhui Suzhou Chengnan Wastewater Treatment Plant 1	70.0	87.5	70.0	87.5	87.5
20	Jiaozuo City Wastewater Treatment Plant	Phase I	100.0	100.0	100.0	100.0
21	Shangqiu Wastewater Treatment Plant	Phase I	80.0	100.0	80.0	100.0
22	Shandong Guangrao Wastewater Treatment Plant	Phase I	48.5	97.0	48.9	97.8
23	Linying Wastewater Treatment Plant		29.8	99.4	30.0	100.0
24	Tianjin Ninghe Wastewater Treatment Plant	Phase I	22.5	75.0	26.3	87.5
25	Heilongjiang Harbin Hejiagou Qunli Wastewater Treatment Plant ⁽⁶⁾	Phase I	135.0	90.0	137.4	91.6
26	Gaomi City Wastewater Treatment Plant		31.0	88.6	33.8	96.6
27	Shandong Rushan Industrial Wastewater Treatment Plant ⁽⁶⁾		7.2	36.1	15.2	76.0
28	Shandong Rushan Residential Wastewater Treatment Plant ⁽⁶⁾		17.3	86.4	14.6	72.8
29	Wugang Zhulan Wastewater Treatment Plant		—	—	18.1	90.7
30	Anhui Suzhou Chengnan Wastewater Treatment Plant 2		—	—	—	—
Total		1,086.6	93.7%	1,147.3	95.6%	94.4%

Notes:

- (1) The Average Daily Charged Wastewater Volume for the relevant period is calculated by dividing the total charged wastewater volume of the relevant plant during the relevant period by the number of days for which the relevant plant was in operation during that period.
- (2) Utilisation rate is calculated by average daily charged wastewater volume divided by daily treatment capacity in operation.
- (3) To accommodate excessive water to be treated during rainy seasons, facilities were usually constructed to have a buffer above the treatment capacity in operation.
- (4) If the treated volume is between 100,000 tonnes/day and 130,000 tonnes/day, the tariff for the portion of the volume exceeding 100,000 tonnes/day would be 50% of the original wastewater tariff. If the treated volume exceeds 130,000 tonnes/day, the portion exceeding 130,000 tonnes/day should not be charged.
- (5) If the treated volume exceeds the guaranteed minimum treatment volume, the tariff for the portion of the volume exceeding the guaranteed minimum volume would be 60% of the original wastewater treatment tariff.
- (6) If the treated volume exceeds the guaranteed minimum treatment volume, the tariff for the portion of the volume exceeding the guaranteed minimum volume would be 80% of the original wastewater treatment tariff.

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Service Concession Arrangements Projects Pending Operation as at 31 May 2014

Project		Location	Project Status*	Expected Date of Commencement of Operation	Daily Treatment Capacity Pending Operation	Guaranteed Minimum Volume	Granted Concession Period (Years)	Expected Date of End of Concession Period (Month/Year)	Water Quality of Treated Wastewater	Total Amount of Investment to be Incurred ⁽¹⁾ (RMB '000)
BOT Models		m ³ /Tonnes per day								
1	Shandong Guangrao Wastewater Treatment Plant**	Dongying	Construction completed	January 2014 ⁽²⁾	25,000	15,000 for the first year, 20,000 for the second year and 25,000 since the third year	21	September 2034 ⁽⁵⁾	Class I Standard A	3,227
2	Hebi Baoshan District Circular Economy Industrial Zone Wastewater Treatment Plant***	Hebi	Construction completed	May 2014 ⁽²⁾	15,000	9,000 for trial operation period and the first year; 10,500 for the second year; 12,000 for the third year; 13,500 for the fourth year; 15,000 since the fifth year	30	May 2044	Class I Standard A	13,217
3	Hebi Baoshan District Water Supply Project*** ⁽⁴⁾	Hebi	Under construction	June 2014	31,300	15,650 for the first year, 18,780 for the second year, 21,910 for the third year, 25,040 for the fourth year, 26,605 since the sixth year	30	June 2044	SH3099-2000 ⁽⁵⁾	2,324
4	Shan County Industrial Park Wastewater Treatment Plant***	Heze	Construction completed	June 2014	40,000	24,000 for the first year, 28,000 for the second year and 32,000 since the third year	28	June 2042	Class I Standard A	19,100
5	Shandong Jining Jbei Hi-tech Industrial Zone Wastewater Treatment Plant**	Jining	Construction completed	June 2014	25,000	18,750 for the first year, 22,500 for the second year and 25,000 since the third year	30	June 2043 ⁽⁶⁾	Class I Standard A	1,043
6	Gaomi Third Wastewater Treatment Plant*	Gaomi	Under construction	July 2014	25,000	17,500 for the first year, 20,000 for the second year, 22,500 for the third year, 25,000 since the fourth year	25	July 2039	Class I Standard A	13,971
7	Shandong Yucheng No.2 Wastewater Treatment Plant*	Dezhou	Under construction	July 2014	30,000	21,000 for the first year, 24,000 for the second year, 27,000 for the third year, 30,000 since the fourth year	25	July 2039	Class I Standard A	35,344
8	Henan Jiyuan Yuchuan Industry Cluster District Wastewater Treatment Plant for District A*** ⁽⁷⁾	Jiyuan	Under construction	July 2014	20,000	12,000 for the first year, 14,000 for the second year, 16,000 for the third year, 18,000 for the fourth year, 20,000 since the fifth year	28	July 2039 ⁽⁸⁾	Class I Standard A	3,000
9	Shandong Haiyang Xingcun Wastewater Treatment Plant***	Haiyang	Construction completed	August 2014	20,000	14,000 in the first year; 17,000 in the second year; 20,000 since the third year	30	August 2044	Class I Standard A	121
10	Weifang Binhai Shuicheng Wastewater Treatment Plant***	Weifang	Construction completed	August 2014	10,000	7,000 for the first year, 8,500 for the second year, 10,000 since the third year	30	August 2044	Class I Standard A	7,818

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Project	m ³ /Tonnes per day					Expected Date of Commencement of Operation	Project Status*	Location	Daily Treatment Capacity Pending Operation	Guaranteed Minimum Volume	Granted Concession Period (Years)	Expected Date of End of Concession Period (Month/Year)	Water Quality of Treated Wastewater	Total Amount of Investment to be Incurred ⁽¹⁾ (RMB '000)
	Location	Expected Date of Commencement of Operation	Project Status*	Daily Treatment Capacity Pending Operation	Guaranteed Minimum Volume									
11	Feng County Power Industrial Park Wastewater Treatment Plant***	Xuzhou	January 2015	Under construction	2,000	2,000	January 2015	Under construction	2,000	2,000	25	January 2040	Class I Standard A	7,635
12	Shandong Wendeng Wastewater Treatment Plant	Wendeng	January 2015	Under construction	25,000	18,750 in the first year; 20,000 in the second year; 22,500 for the third year; 25,000 since the fourth year	January 2015	Under construction	25,000	18,750 in the first year; 20,000 in the second year; 22,500 for the third year; 25,000 since the fourth year	30	January 2045	Class I Standard B	2,977
13	Jiaoziu City Wastewater Treatment Plant Phase II Expansion**	Jiaoziu	April 2015	Under construction	50,000	40,000 for the first year; 45,000 for the second year; 50,000 since the third year	April 2015	Under construction	50,000	40,000 for the first year; 45,000 for the second year; 50,000 since the third year	26	April 2041	Class I Standard A	73,620
14	Shandong Liangshan Economic Development Zone Wastewater Treatment Plant	Liangshan	July 2015	Under construction	20,000	10,000 in the first year; 12,000 in the second year; 14,000 in the third year; 16,000 in the fourth year; 18,000 in the fifth year; 20,000 since the sixth year	July 2015	Under construction	20,000	10,000 in the first year; 12,000 in the second year; 14,000 in the third year; 16,000 in the fourth year; 18,000 in the fifth year; 20,000 since the sixth year	30	July 2045	Class I Standard A	47,739
15	Heilongjiang Harbin Hejiagou Qunli Wastewater Treatment Plant**	Harbin	December 2015	Under construction	100,000	70,000 for the first and second year; 85,000 for the third and fourth year; 100,000 since the fifth year	December 2015	Under construction	100,000	70,000 for the first and second year; 85,000 for the third and fourth year; 100,000 since the fifth year	30	December 2045	Class I Standard B	273,807
TOT Model														
16	Dongying Port North Economic Development Zone Wastewater Treatment Plant	Dongying	July 2014	Construction completed ⁽⁹⁾	50,000	25,000 for 2014; 35,000 for 2015; 45,000 for 2016; 50,000 since 2017	July 2014	Construction completed ⁽⁹⁾	50,000	25,000 for 2014; 35,000 for 2015; 45,000 for 2016; 50,000 since 2017	30	January 2043 ⁽¹⁰⁾	Class I Standard A	125,967
Total (Excluding Hebi Baoshan District Water Supply Project)														630,908

Notes:

- * “Construction completed” refers to the construction work of the project that is finished and is pending commencement of commercial operation whereas “under construction” refers to the project that is in either construction phase or planning phase.
- ** This project is an expansion/upgrade project.
- *** The future expansion of such project is already granted by signed contract.
- (1) Total amount of investment to be incurred as at 30 April 2014.
- (2) This project was in trial operation and in the process of applying for the commencement of operation.
- (3) According to the service concession agreement, the end date of concession period is the same date with Shandong Guangrao Wastewater Treatment Plant Phase I.
- (4) This project is a water supply project.
- (5) This is water quality of water supplied.
- (6) The granted concession period started from the date of commencement of trial operation.
- (7) We obtained the project through the acquisition of Beijing Chang Sheng in 2013.
- (8) The granted concession period started from the date of commencement of construction.
- (9) It is currently under upgrading and is not in operation.
- (10) The granted concession period is fixed from January 2013 to January 2043.

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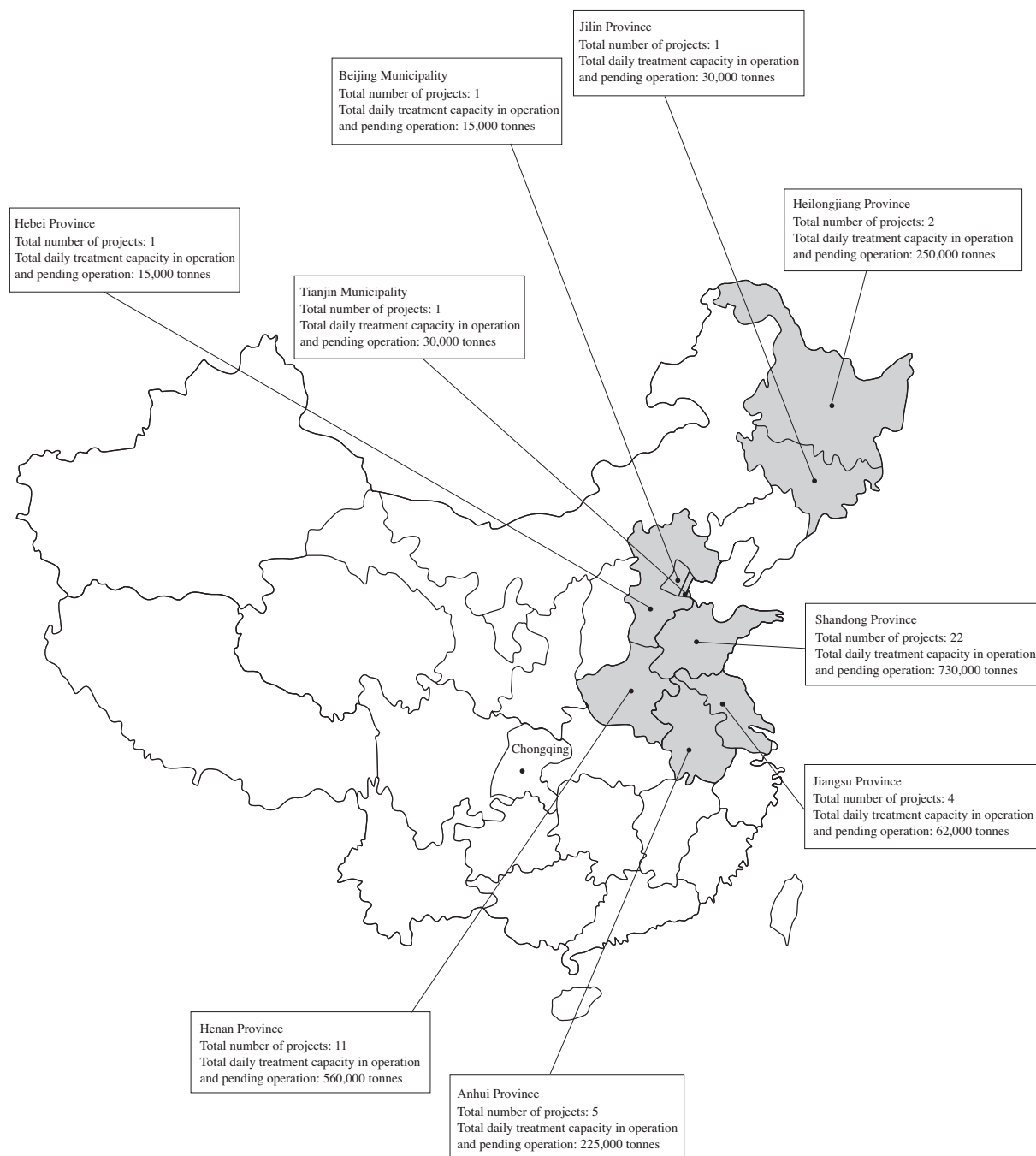
The average actual treatment capacity utilisation rate of all of our service concession arrangements in operation for the fiscal year of 2013 was approximately 86%. The actual treatment capacity utilisation rate represents the total actual wastewater volume treated divided by total daily wastewater treatment capacity in operation.

The table below sets out a breakdown of the revenue, cost of sales, gross profit and gross profit margin of our business segments for the years indicated.

	Years ended 31 December											
	2011				2012				2013			
	Cost of		GP		Cost of		GP		Cost of		GP	
Revenue	Sales	Gross Profit	Margin	Revenue	Sales	Gross Profit	Margin	Revenue	Sales	Gross Profit	Margin	
RMB'000	RMB'000	RMB'000	%	RMB'000	RMB'000	RMB'000	%	RMB'000	RMB'000	RMB'000	%	
Service concession arrangements												
- Construction	179,167	149,934	29,233	16.3	263,130	212,228	50,902	19.3	531,593	426,105	105,488	19.8
- Operation	259,223	128,182	131,041	50.6	313,913	159,447	154,466	49.2	325,715	172,978	152,737	46.9
- Financial income	107,198	—	107,198	—	127,166	—	127,166	—	173,051	—	173,051	—
Subtotal	545,588	278,116	267,472	49.0	704,209	371,675	332,534	47.2	1,030,359	599,083	431,276	41.9
BT Arrangements												
- Construction	180,882	114,277	66,605	36.8	282,202	184,255	97,947	34.7	293,123	219,649	73,474	25.1
- Financial income	2,462	—	2,462	—	10,963	—	10,963	—	8,719	—	8,719	—
Subtotal	183,344	114,277	69,067	37.7	293,165	184,255	108,910	37.1	301,842	219,649	82,193	27.2
Others												
- Construction	3,288	2,073	1,215	37.0	561	518	43	7.7	5,185	4,781	404	7.8
- Operation	2,666	2,355	311	11.7	1,380	1,089	291	21.1	2,293	2,745	(452)	(19.7)
Subtotal	5,954	4,428	1,526	25.6	1,941	1,607	334	17.2	7,478	7,526	(48)	(0.6)
Total	734,886	396,821	338,065	46.0	999,315	557,537	441,778	44.2	1,339,679	826,258	513,421	38.3

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The map below sets out the geographic locations of our wastewater service concession arrangement projects as at 31 May 2014.



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SERVICE CONCESSION ARRANGEMENTS

Our service concession arrangements comprise BOT and TOT models.

BOT Projects

Overview

We primarily undertake BOT projects by investing in the design and construction of operating wastewater treatment facilities, which we operate for a concession period ranging from 25 to 30 years after the completion of the construction. We fund all of the project costs of the design, construction and operation of the projects from our own internal resources, including cash from operations, from issuance of shares and from external bank loans, including project loans and working capital loans from commercial banks in the PRC. We do not receive any payments from our customers during the construction phase of our BOT projects, and we have the right to operate the wastewater treatment facilities in exchange for service fees payable to us by our customers during the operation period. The fees we receive typically include a guaranteed tariff based on a guaranteed minimum treatment volume together with an additional tariff for any wastewater treated in excess of the minimum volume. We generally request and receive payment of such fees monthly from our customers that are our customers. Upon the expiration of our appointment, we are required to transfer the facility to our customers for nil consideration. However, we may be reappointed through a bidding process to continue the operation and maintenance of the facility after the expiry of the concession period.

We recognise revenue in both the construction phase and the operation phase of our BOT projects, but we only begin to receive payments from our customers in the operation phase. In accordance with IFRSs, we recognise revenue during the construction phase of our BOT projects on a percentage-of-completion basis. As a result, the revenue we record during the construction phase of our BOT projects does not match our cash inflow during the same period. During operation phase, we recognise revenue according to the services provided. For further details, please refer to “Financial Information — Critical Accounting Policies, Estimates and Judgments — Revenue recognition” and “Risk Factors — Risks Relating to Our Business — We typically only receive payment in connection with the revenue recognised from the construction of our BOT and BT projects on receipt of cash payments during the operational phase of these BOT projects or in instalments following the execution of BT project repurchase agreement upon completion of their construction, and our cash inflow does not match the revenue recognised during the construction phase, which in turn could cause material and adverse effects on our business, financial condition, results of operations and prospects”.

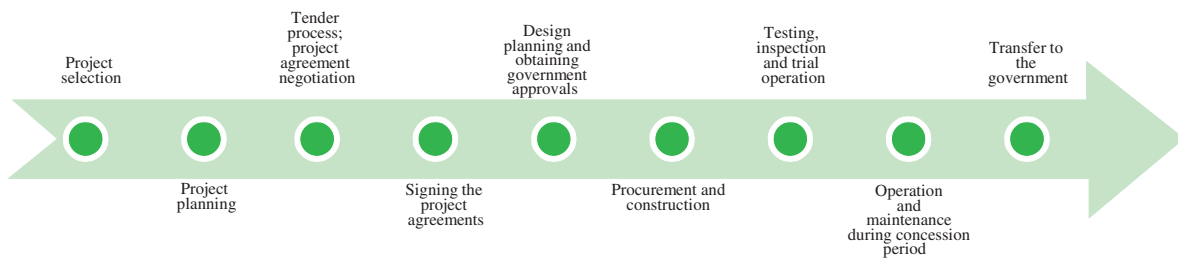
As at the Latest Practicable Date, we had a total of 33 wastewater treatment BOT projects and one water supply BOT project. Of a total of 34 BOT projects, 19 were in operation and 15 were pending operation. We have also been engaged by our existing customers to upgrade some of our on-going BOT and TOT projects, which, in each case we treat as a BOT project for accounting purposes. As at 31 May 2014, we were in the process of upgrading six BOT/TOT projects in operation and one TOT project pending operation. As at 30 April 2014, the budgeted investment amounts for our projects pending operation and being upgraded ranged from RMB0.1 million to RMB273.8 million per project, and the total outstanding budgeted investment amount of our projects pending operation was approximately RMB1,079.2 million, which will be funded over the next two years. In compliance with

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relevant PRC laws and regulations, our external borrowings for each project do not exceed 80% of our total budgeted investment for that project. We are, therefore, required to fund at least 20% of the total budgeted investment in the project ourselves from our internal resources or issuance of shares. As at 30 April 2014, we had bank borrowings of RMB2,952.8 million. Please see “Financial Information — Indebtedness”.

BOT Project Management Process

The following diagram illustrates our typical BOT project management process:



Project Selection

We source the majority of our BOT projects through tendering or competitive negotiation during the Track Record Period. In addition, we acquired some of our BOT projects through our acquisition of Beijing Chang Sheng. For acquired BOT projects that have already completed the construction phase, we did not invest in the design or construction of such facilities. However, for acquired BOT projects that have yet to commence construction or have not completed construction, we undertake such BOT projects to continue the construction of the facilities.

We believe our proven project execution track record and reputation in the wastewater treatment industry give us opportunities to source new projects. We normally seek to enter into a new region in China by focusing on constructing and operating a single wastewater treatment project. Following the establishment of our presence in the area, we may be offered opportunities by local governments or their designees in nearby cities to provide wastewater treatment services. Furthermore, a portion of our new projects are expansion or upgrade projects offered by our existing customers as a result of the demand for increased treatment capacity or enhanced environmental standards. Our market expansion centre and project companies actively source prospective projects by collecting market information from our existing customers and other market participants.

We screen prospective wastewater treatment projects by using a set of market-driven and return-focused criteria that include our assessment of the prospective profitability of the project and the projected cost of building and operating the facilities. Our market development centre first identifies a prospective project and assigns an investment project manager to coordinate with, and gather relevant project information from, governmental agencies and other relevant parties, such as design institutes. Such investment project manager also filters or summarises the information and ensures its accuracy and timeliness. Our risk control centre will then assess the risk profile of the

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project. We assign specified responsibilities to each of our operating centres and they actively collaborate with each other during the due diligence process and to provide necessary input from technology, construction, finance and operation perspectives and assist in the assessment of the project. The main criteria that we apply to assess prospective projects include:

- the credit-worthiness and credit history of the potential customer and its source of funding for the project;
- our availability of internal resources and external financing to fund the project;
- our knowledge and understanding of the local market;
- the composition of the wastewater and the resulting technical requirements of the project;
- the specific requirements of our customers;
- the available treatment technologies and alternatives for the project;
- the probability of our success in securing the prospective project;
- the projected cost from building and operating the facilities; and
- wastewater treatment tariff.

We prioritise our business focus on projects that we deem suitable after initial assessment and allocate resources to further evaluate such projects. Following our initial assessment, we prepare a due diligence report for further internal review. The due diligence report includes information and analysis on the above-mentioned factors, future potential for water treatment tariff increases, other potential projects in the surrounding area, potential revenue and projected rate or return. Our strategy and investment committee will then determine whether we should pursue the project.

Project Planning

After the project selection is internally approved, the investment project manager then leads the preparation of a project implementation plan. This process entails conducting further due diligence and a deeper analysis of the issues identified in the due diligence report. We outline the proposed treatment process to be contained in the project implementation plan, taking into account our customers' specifications and the relevant PRC laws and regulations.

Tender and/or Competitive Negotiation Process; Project Agreement Negotiation

Because our customers are usually municipal, district or county level governments or their designees, we are required to go through a public tender process or competitive negotiation to secure a new project, though we are not required to do so for some of our upgrades or expansions of existing projects.

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With respect to the public tender, tender notices are typically available via the internet and announcement issued by local governments. We usually conduct careful screening of the tender notices for potentially suitable projects. Subsequent to the start of the tender process, there is generally a period of time during which we could pose questions about the tender requirements to the local governments and prepare our final tender documents, which are generally required to be submitted within 30 days. We typically prepare and submit our tender documents in accordance with the specified tender requirements set by the relevant local governments. Our business unit teams, including our market expansion centre, technology management centre, construction management centre and water management centre are all actively involved in the tender offer process combining their various areas of expertise to enhance our competitiveness and responsiveness. Please see the section headed “— Our Key Operation Centres” in this prospectus for detailed functions of our major operating centres.

After tender documents are submitted, the local government will consider numerous factors in assessing a tender. These include, among others, the applicant’s credentials and qualifications, project management capacity, reputation and experience, the technical design as well as the commercial terms proposed. In some cases, we are required to pay a deposit in order to participate in the tender process. The deposit is generally returned to us following the announcement of the result of the tender process if we are not selected or following the signing of the project agreement if we are chosen for the project. Once we are awarded a tender, we enter into a service concession agreement with the local government after obtaining approval from the relevant government, During the Track Record Period, we were not aware of any disputes, claims or complaints in relation to the tender or acquisition of projects by our Group. For further details of the regulatory and procedural requirements of the public tender process, please see the section headed “Regulations — Concession Arrangement in Wastewater Treatment Projects” in this prospectus.

In addition to public tender, we also participate in competitive negotiation process to obtain service concession arrangement projects. The competitive negotiation process that we participate in typically is as follows: (i) relevant local government or its designee will form a negotiation committee consisting of its representative(s) and other experts; (ii) based on the specified project criteria and service providers’ qualifications, the local government or its designee will invite at least three potential candidates to participate in the competitive negotiation process as required by the Government Procurement Law; (iii) it then conducts one-on-one negotiations with each of the participants; (iv) based on the competitive negotiations held, the relevant local government or its designee will select a winner; (v) it will subsequently issue a confirmation letter to the winner, and (vi) the parties will then execute the relevant service concession agreement after gaining approval from the relevant governments.

According to the Tender Measures, government authorities are required to select investors and operators of wastewater treatment projects through public bidding. However, pursuant to the Government Procurement Law, government procurement may be conducted in the form of public bidding, competitive negotiation or other mandatory methods. Although public bidding is generally deemed as the primary method for government procurement, the government may procure services and/or constructions through competitive negotiation in accordance with the Government Procurement Law in certain special scenarios.

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As advised by our PRC legal adviser, Commerce & Finance Law Offices, both the Government Procurement Law and the Tender Measures may be applicable when local governments select investors and operators for wastewater treatment projects, but there is no explicit legal requirement as to which law and/or regulation must be applied by the local government in connection with its procurement of services and/or construction. However, as advised by our PRC legal adviser, according to the Legislation Law of the People's Republic of China, the Government Procurement Law, which is a "law", shall be superior, in terms of legal effect, to the Tender Measures, which falls within "ministerial regulations". While the Government Procurement Law empowers the local governments to resort to competitive negotiation in certain circumstances for the purpose of selecting investors and operators for relevant wastewater treatment projects, the Tender Measures, which shall be in compliance with rather than in contravention of the Government Procurement Law, shall not be so interpreted as to deprive or otherwise impede the exercise of such power of the local government customers. Therefore, as advised by our PRC legal adviser, when the local government customers duly exercise their legitimate power to adopt the form of competitive negotiation in accordance with the Government Procurement Law, neither the local government customers nor we shall be deemed to be in violation of the Tender Measures and other applicable PRC laws and regulations, and such procurement procedures adopted is valid and effective. Our PRC legal adviser further advised that all of the relevant service concession agreements entered into by and between the local government customers and us, whether through competitive negotiation or public bidding, are legal, valid and binding on the parties thereto. The PRC legal adviser to the Joint Sponsors and the Underwriters, Jingtian & Gongcheng, has confirmed it shares the same opinions with our PRC legal adviser. Based on the foregoing, our Directors confirm that the form of competitive negotiation adopted by our local government customers in connection with their procurements is valid and effective and in compliance with applicable laws and regulations. Based on (i) legal opinions issued by PRC legal advisers to the Company and the Joint Sponsors; (ii) documents, information and confirmations provided by the Company and its Directors; and (iii) information set out in this prospectus, the Joint Sponsors concur with the Directors' views set out above.

For the years ended 31 December 2011, 2012 and 2013, we had eight, two and one successful bids, respectively, out of nine, four and two projects that we submitted bids for, representing a success rate of 88.9%, 50.0% and 50.0%, respectively. For the years ended 31 December 2011, 2012 and 2013, three, two and four of our projects, respectively, were obtained through competitive negotiation.

Signing the Project Agreements

After winning a tender or a successful negotiation, we sign relevant project agreements, normally through our major PRC operating subsidiary (Kangda Group) and/or the relevant project company with our customers, usually the municipal, district or county level government or their designees. Such designees may include an administrative commission for an industrial development zone, the local construction bureau or a public utilities bureau. We generally request our customers to provide copies of undertaking letters from the local finance bureau with regard to the payment of our service fees and authorisations from the local government if the agreement is signed by its designee. Although at this stage, the land use right will not be granted or transferred to us and we generally have limited information about land and construction related permits and certificates, we usually try to collect more information and typically request our customers to ensure that we will have valid land use rights or to assist us in obtaining relevant permits and certificates relating to the land use rights and construction.

BUSINESS

We typically incorporate an individual project company for each new project, but in cities where we have existing projects, we generally conduct all projects in that city through a single project company. When required, we transfer the project as well as the relevant rights set forth in the project agreement from Kangda Group to the project company after its incorporation.

Project Design and Government Approvals

Before we commence construction, relevant approvals are required for the construction of the project from the local development and reform commission, the planning bureau and the land administration bureau and other relevant authorities. Our customers usually will assist us or will be obligated under the terms of our project agreements to help us in obtaining these approvals.

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

During the design planning process, we, in collaboration with the qualified Independent Third Party design institute commissioned by us, will conduct studies to evaluate whether the proposed treatment system that meets 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. Please refer to the section headed "— Wastewater Treatment Process" in this prospectus for further details.

Procurement and Construction

Pursuant to the terms of our BOT project agreements, we are responsible for the construction of the wastewater treatment facilities. We do not conduct the construction of our facilities by ourselves. We hire qualified third party contractors for the construction of wastewater treatment facilities and the installation, testing and commissioning of the necessary equipment and systems for such treatment facilities according to the detailed project implementation plans, as we consider it more cost efficient to do so. The principal building materials used for the construction of wastewater treatment facilities, such as cement, steel, cable and pipelines, are usually provided or procured by the construction contractors themselves. The cost of these materials will usually be included in our contractors' project proposals and therefore, they bear the risk of fluctuation of the costs of such raw materials. We generally select our construction contractors through a tender process, following which we designate a project manager to coordinate with them. Construction generally takes one to two years to complete. During the construction process, we supervise the contractors' construction work, principally through our project manager. We select and procure the equipment to be installed during the construction phase and place orders for such equipment after the detailed project plans have been finalised. Our construction management centre assigns personnel to oversee the installation of equipment by suppliers. We are responsible for the costs of the construction services. Please refer to the section headed "— Suppliers and Contractors" in this section for more details.

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Our construction management centre is responsible for monitoring the construction phase of our BOT projects. We have dedicated employees who are responsible for carrying out inspections during the construction phase. Following the commencement of the construction phase of our BOT projects, we typically engage qualified third party engineering companies to monitor the progress and performance of our contractors. The engineering companies also assist us with other project-related issues, such as compliance with relevant construction standards.

Testing, Inspection and Trial Operation

Following the completion of the construction of the facilities, we will test, inspect and commission the systems to ensure that they operate in accordance with our customer's requirements and the terms of our project agreements. Commissioning the facilities involves a procedure encompassing the examination of the equipment and pipeline network, as well as their integration into a fully functioning system. Once we complete this testing process, we normally give a notice to the relevant authority to inspect the facility. After passing the inspection by the relevant authority, we normally apply to the relevant environmental authority to commence trial operation of the facility. We are generally required to conduct trial operations and obtain the local environmental protection department's approval. The local environmental protection department will carry out an assessment of the quality of the treated wastewater and grant approval if it meets the relevant quality standards, before the commencement of commercial operations.

Operation and Maintenance

We will recruit or assign a team of employees to operate and maintain our wastewater treatment facilities. The size of the project team is determined by the type and volume of wastewater treated at the facility and the number of items of equipment need to be maintained. We generally will appoint more maintenance personnel to maintain facilities that treat municipal wastewater with industrial wastewater characteristics because such wastewater is generally more difficult to treat and therefore requires additional maintenance work. We are responsible for all of the costs of operation, maintenance and repairs during the operation phase of our projects.

The quality of the water before treatment and after treatment is specified in the relevant project agreement and is subject to monitoring on a 24-hour basis by the local environmental authorities or by a third party monitoring institute engaged by the authorities. We also maintain our own water quality monitoring systems to ensure the quality of incoming wastewater meets contractual requirements and the quality of the treated water meets both regulatory and contractual standards. The treated wastewater of our relevant wastewater treatment projects are generally required to meet one of the following standards (i) Beijing Water Pollutants Discharge Standard III, (ii) Class I Standard A, (iii) Class I Standard B and (iv) Class II. Please see "Glossary" for further details relating to the treated wastewater standards. Except as disclosed in "— Non-Compliance" in this prospectus and based on the confirmations issued by the relevant environmental protection bureaus confirming that the pollutant discharge of our respective project companies has been consistent with the national and local standards, our PRC legal adviser, Commerce & Finance Law Offices, is of the view that such project companies have complied with the applicable laws and regulations in relation to pollutant discharge during the Track Record Period.

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During the operation stage, we conduct periodic maintenance of the equipment and facilities. Depending on the types of equipment and components used in the facilities, maintenance will be conducted daily, monthly or as required according to our operational guidelines. Routine maintenance of the facility is conducted by our team responsible for the operation of the facilities. Our operational guidelines focus on ensuring that the equipment and facilities are maintained in good condition by taking appropriate preventive measures and conducting periodic inspections. We also periodically conduct more significant repair work through our relevant project companies working together with our water management centre, and when needed external maintenance service providers. We typically seek to arrange such comprehensive maintenance and repair work of our particular project when we consider appropriate, which commence with a detailed inspection of the facilities and equipment used therein.

We currently do not conduct treatment of the sludge produced at our facilities ourselves. We generally outsource our sludge treatment and do not maintain the relevant equipments. We are responsible for the cost of maintenance during the operation phase.

Transfer to the Government

We are required to transfer the facilities to the government following the conclusion of the concession period. According to the project agreements, after the concession period expires and we receive confirmation from our customers that the facility is operating according to pre-determined standards and is in compliance with the relevant specifications, we will transfer the treatment facilities to our customers for their operation. We are required to provide operational training to our customers for a period of six to 12-months prior to the hand over of the treatment facilities. We typically provide our customers with warranties with respect to the facility following transfer. Our warranty period commences upon the transfer of the facility and during this period we are obligated to amend any defects in the equipment or systems that are required for the operation of the facility at our cost. Upon the expiration of our warranty period, we may continue to provide such maintenance services to our customers for a fee determined by reference to the then prevailing market standard but are not otherwise obligated to carry out such maintenance or repairs. We did not transfer any of our treatment facilities to our customers during the Track Record Period. Based on the terms of our existing project agreements, the earliest termination of a concession period for any of our projects is expected to be in 2027. As a result, we did not make any provision in our financial statements with respect to such warranty arrangements.

Key Contract Terms

For each BOT project, we enter into a project agreement with our customer, usually a municipal, district or county level government or its designee, which stipulates the terms upon which the concession is granted, and the parties' respective rights and obligations with regard to the construction and operation of the wastewater treatment facility. Below is a summary of the key contract terms for our typical BOT project agreements with our customers.

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Construction of the wastewater treatment facilities. Our BOT project agreements set out our obligations in respect of, among other things, wastewater treatment facility construction, ancillary facility construction, the construction period and the operating schedule for the project. Our primary responsibilities during the construction phase include conducting detailed geological survey, designing the facility, providing civil engineering, procuring and installing equipment, and conducting trial operation. Our customers are generally responsible for providing basic infrastructure support, such as land levelling, constructing access roads and providing water and power supply and for obtaining the relevant construction permits. According to our BOT project agreements, we are not obligated to complete our construction according to the pre-determined designed wastewater treatment capacity until the basic infrastructure is completed. Furthermore, with respect to the construction schedule, most of our BOT project agreements do not specify target dates for the commencement or completion of construction or the completion date. Instead, the agreements usually provide for the construction period of eight to 24 months from the date we receive construction permits or 12 to 20 months from the effective date of the relevant agreement.

Testing and acceptance. The BOT project agreements set forth the procedures for the testing and acceptance of the wastewater treatment facilities and the conditions we must satisfy to commence commercial operation of the facilities and to receive payment. The testing process is conducted jointly by us and our customers, who are usually responsible for coordinating with the quality inspection and supervision authorities to conduct such tests. After passing the testing and acceptance process, we receive notice of completion of the construction from the relevant government authorities, which we then use to apply to the relevant environmental agencies for approval to commence trial operation. We are generally required to pay liquidated damages in the range of RMB5,000 to RMB10,000 per day to our customers in the event of any delay in project completion that is due to our fault. We were not subject to such penalties as a result of delayed project completion that is due to our fault during the Track Record Period.

Trial operation of the wastewater treatment facilities. We are required to conduct trial operations, which in practice is typically a period of 15 or 30 days prior to the commencement of commercial operations. During the trial operation period, the local government is responsible for supplying wastewater that meets certain pre-agreed standards. If the quality of our treated wastewater meets the pre-agreed thresholds for the trial-operation period, we will subsequently submit an application to the local authority for approval to commence commercial operation of the facility. Whether we start to receive payments during the trial-operation phase depends on the specific terms of the project agreements entered into between us and our customers.

Water quality. The BOT project agreements sets out the quality of the wastewater to be treated by our facilities. For instance, the COD and BOD contained in the wastewater prior to treatment must not exceed certain specified levels. We reserve the right to increase the wastewater treatment fee or refuse to continue receiving wastewater (provided that we shall continue our services to the extent required for the protection of the public interest) if the pollutants, such as COD and BOD, in the wastewater we receive exceed pre-determined levels. In addition, our customer is required to compensate us for any damage caused to our facilities as a result of treating wastewater that did not meet the criteria. In some cases, if new quality standards for treated wastewater are implemented by the government, we have the right to increase the service fee or are entitled to receive compensation from our customers.

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Wastewater treatment services, fees and payments. We generally commence commercial operation of the wastewater treatment facilities after we complete the testing and trial operation (where applicable) and receive approval from the relevant governmental authorities to commence commercial operations.

We begin to receive regular fee payments from our customers once the commercial operation of the wastewater treatment facility commences. Our customers are generally required to pay us fees on a monthly basis. Our BOT project agreements set out the procedures and methods for calculating the fees and payment terms for the wastewater treatment services. The fees are usually calculated according to the volume of wastewater treated multiplied by the unit price. Our customers and us generally agree to the unit price to be charged by the time we enter into the relevant BOT agreements. We have also entered into BOT agreements whereby the unit price we charge is determined after we complete the construction of the relevant facilities and had accounted the total investment cost, but such agreements constitute only a minor portion of our BOT agreements. The BOT project agreements also set out the terms and conditions on which the price of wastewater treatment services may be adjusted, such as a result of a project expansion or upgrade, changes to the quality of treated wastewater, changes to the national standards of treated wastewater, the price of electricity and the price of raw materials, labour costs and materials we use to treat the wastewater where such changes exceed agreed thresholds. Adjustment of service fees generally requires the prior written approval of our customers. Our BOT project agreements usually provide for a guaranteed minimum volume of wastewater to be treated and we are entitled to receive payment for such minimum volume even when the actual volume of water treated falls below such threshold. The unit price we charge for the volume of wastewater treatment exceeding the guaranteed minimum volume is generally different from the unit price we charge up to the guaranteed minimum volume. The unit price of the former is typically 60% to 100% of the latter.

Operation and maintenance. Under our BOT agreements, we are typically responsible for the maintenance and repair of the facilities at our cost. We generally schedule repairs of our particular project when we consider appropriate. We are required to give our customer and the relevant environmental authorities prior notice when such repair and maintenance leads to a material decrease in our wastewater treatment capacity. We may only commence such repair and maintenance following the approval of our customers.

Concession right. Our BOT project agreements stipulate the concession period for which we are appointed to operate the treatment facilities upon completion of construction and the receipt of approvals in respect of commencement of commercial operations. The concession period usually ranges from 25 to 30 years. Our BOT project agreements generally provide that within the concession period, we cannot transfer, lease, pledge or mortgage the concession right to any third party without the prior written consent of our customers. All of our concession rights are exclusive during the concession period.

Land use right. Our BOT project agreements generally stipulate that the local authorities shall transfer the land use rights to us or allow us to use the land use rights for nil consideration during the concession period. In some cases, we are required to purchase the land use rights from the local government, and in such instances, the purchase cost constitutes part of our initial investment in the project and we expect to recover such cost through the monthly fees we receive from our customers

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during the concession period. In addition, the local government is generally required to assist us in completing the process for the transfer of land use rights to us. As advised by our PRC legal counsel, Commerce & Finance Law Offices, according to the terms of certain service concession agreements, a government authority that is a party to such agreement is obligated to provide the relevant land for use by our relevant project company, and such project company is entitled to occupy and use the relevant land and the buildings and/or structures constructed on such land in accordance with the relevant service concession agreement for the duration of the concession period.

Transfer. We are required to transfer the treatment facilities and ancillary facilities to our customers for nil consideration upon the expiration of our concession period. Our BOT project agreements typically require us to carry out comprehensive repair work before the expiration of the concession period to ensure that the treatment facilities operate properly after the transfer.

We are generally required to provide a 12 month warranty for the facilities following the transfer. During this warranty period, we are responsible for amending any defects in the equipment or systems relating to the wastewater treatment facility. In addition, in certain instances our customers are entitled to retain 10% of the aggregate wastewater treatment service fees that we are scheduled to receive during the last year of the concession period as retention money for the warranty period. During the Track Record Period, we did not transfer any of our treatment facilities, thus no warranty expenses were incurred during the Track Record Period. Our first concession period under our BOT agreements is due to expire in 2027. Therefore, our Directors are of the view that no provision for such warranties was required during the Track Record Period.

Furthermore, under our BOT agreements, we have the right to transfer the facilities under construction or in operation to our customers before the concession period expires when certain events occur, such as a default by our customer in scheduled payments of more than 60 days. In such case, we may be entitled to compensation calculated according to a formula specified in the relevant agreement. During the Track Record Period, we did not exercise the right to transfer due to payment defaults by our customers.

Termination. The BOT project agreements can be terminated by either party due to specified events of default or force majeure events. Events of default by our customers may include their failure to make scheduled wastewater treatment service fee payments on time or granting the concession rights to a third party in breach of our exclusivity rights. On the other hand, events of default by us may include leasing or transferring the right and authority of the concession to a third party without the prior consent of our customers, failing to complete the construction within the period stipulated in the BOT project agreements or any serious construction quality or safety accidents caused by our mismanagement. If any event of default occurs, the terminating party will need to notify the other party of its intent to terminate and the contract will be terminated. Where a BOT project agreement is terminated by one party due to the other party's breach of the agreement, the terminating party is entitled to damages or compensation as prescribed in the relevant BOT project agreements. During the Track Record Period, we incurred no such damages or penalties and none of our BOT agreements were terminated by us or our customers.

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TOT Projects

Overview

We also acquire constructed wastewater treatment facilities from local governments, their designees or other third parties. Following our due diligence, the local governments, their designees or other third parties transfer the constructed wastewater facilities and concession rights to us for an agreed consideration and we then operate the facilities for the remaining term of the concession period. The relevant concession period generally ranges from 25 to 30 years. We usually pay the transfer consideration prior to a pre-determined date either in a single lump sum or by instalments as stipulated in the project agreements. Following our commencement of the operation of the facility, we begin to receive regular fee payments from our customers based on the service fee schedule specified in the agreement.

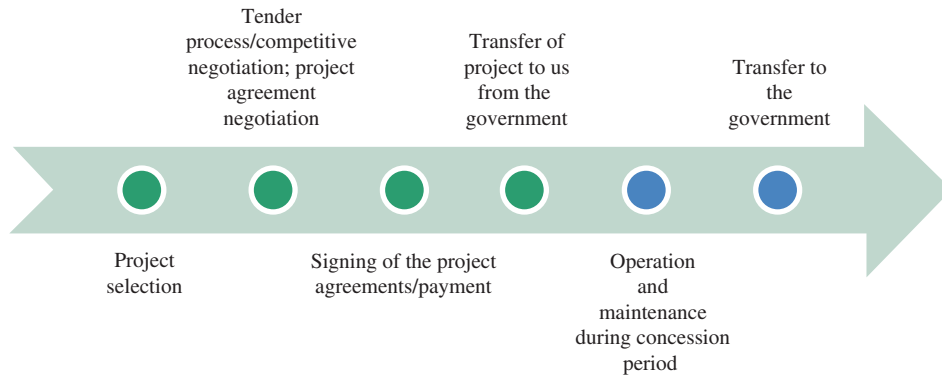
We recognise revenue from TOT projects when we operate the wastewater treatment facilities and receive monthly payments for such operation in accordance with the relevant TOT project agreements. The fee we receive for our TOT services typically includes a guaranteed tariff, based on a guaranteed minimum treatment volume together with an additional tariff for any wastewater treated in excess of the minimum threshold. The unit price we charge for the volume of wastewater treatment exceeding the guaranteed minimum volume is generally different from the unit price we charge up to the guaranteed minimum volume. The unit price of the former is typically 60% to 80% of the latter. We are responsible for the cost of maintenance of the facility during the operating phase. Upon the expiry of our concession period, we are required to transfer the facility to our customers for nil consideration.

TOT Project Management Process

We evaluate potential TOT projects by applying similar criteria to those we use to assess BOT projects, but as our TOT projects do not involve the construction phase, we do not assess projected construction costs. In addition to researching the wastewater conditions and the quality standards applicable to the treated wastewater, we conduct detailed due diligence to better understand the target wastewater treatment facilities, including the facility conditions and historic financial situations. Our due diligence also includes an assessment of the operation, technology and risks of the relevant project and we focus on identifying areas where operations can be improved. Furthermore, we seek to identify and acquire projects with potential for expansions or upgrades.

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The TOT project management process is similar to the BOT process, except that there is no construction related process. Our typical project management process for TOT projects is illustrated as follows:



Key Contract Terms

Project documentation for our TOT projects usually consists of a project agreement and a transfer memorandum with the customer transferring the facility to us. The TOT project agreement provides the terms upon which the concession is granted, and the parties' respective rights and obligations with regard to the provision of wastewater treatment services during the concession period. The transfer memorandum usually provides for the list of assets to be transferred and the time of hand over. The execution of the transfer memorandum also represents the time which our right to receive fees commence. Below is a summary of the key contract terms of our TOT project agreements with our customers:

Initial transfer. We usually pay the transfer consideration prior to a pre-determined date or by instalments as stipulated in the TOT project agreement. The local government generally transfers the projects to us upon the execution of the transfer memorandum. It is entitled to all the owners' rights and obligations before the transfer and shall be responsible for all the debts incurred before the transfer.

Water quality, fees and payment, operation and maintenance, concession right, land use right and termination. The TOT project agreements have similar provisions as our BOT project agreements. During the Track Record Period, there was no early termination of any of our TOT project agreements by our customers or us.

Transfer back to local government. The TOT project agreements have similar provisions in these respects as our BOT agreements.

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Our Acquisition of Beijing Chang Sheng

In May 2013, our Group acquired 100% equity interest of Beijing Chang Sheng, which had six wastewater treatment projects undertaken by wholly-owned subsidiaries of Beijing Chang Sheng prior to the acquisition. After our acquisition of Beijing Chang Sheng, we categorised these six wastewater projects as BOT projects. Except for these BOT projects we obtained through the acquisition of Beijing Chang Sheng, we sourced all of our BOT and TOT projects through public tender or competitive negotiation during the Track Record Period.

BT ARRANGEMENTS

Overview

For our BT projects, during the Track Record Period, we invest in the design and construction of facilities ancillary to wastewater treatment facilities and other municipal infrastructure, such as roads and pipe networks. Upon the completion of the construction and the final acceptance inspection for the relevant facilities, we and our customer then determine the total consideration payable by the customer for such project based on the terms of our project agreements. We own the constructed facilities until our customers purchase the facilities from us. We transfer the ownership of the project to our customers in phases according to the proportion of the purchase price paid by them and will only fully transfer ownership of the project to the government upon receiving payment in full. As at 31 December 2013, we had four BT projects for the construction of municipal water supply, drainage network and municipal infrastructure.

We recognise revenue from our BT projects on the basis of the percentage of completion of the relevant construction project, commencing when a legally binding contract is executed and when the total construction costs of the facilities under development can be reliably estimated. When construction of a phase of the BT project is completed and passes the final acceptance tests, we and our customer will commence discussions to determine the total consideration payable to us for the construction of that phase of the project. During the Track Record Period, we did not encounter any material difficulties or disputes with our customers during the repurchase negotiations. The repurchase period for the project commences when we and our customer enter into a repurchase agreement for the particular phase of the construction. We generally request and receive annual payments from our customers during the repurchase period, which typically ranges from three to four years. The revenue we recognise in a particular period depends on the terms of the BT projects under construction in that period, the phase of completion reached and the accuracy of our estimates. Due to the fact that our customers under the BT projects usually only make payment during the repurchase period, there generally will be a discrepancy between our cash flow and our revenue recognition during the relevant periods. For further details, please refer to “Financial Information — Principal Income Statement Components — Revenue — BT Arrangements” and “Risk Factors — Risks Relating to Our Business — We typically only receive payment in connection with the revenue recognised from the construction of our BOT and BT projects on receipt of cash fee payments during the operational phase of these BOT projects and in instalments following the execution of BT project repurchase agreements upon completion of their construction, and our cash inflow does not match the revenue recognised during the construction phase, which in turn could cause material and adverse effects on our business, financial condition, results of operations and prospects”.

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As at the Latest Practicable Date, our customers had commenced the repurchase process of three of our BT projects and we were in repurchase discussions with respect to our fourth project, the Jilin BT project. Following the repurchase and transfer of this project, we do not intend to enter into new BT projects. In the future, we intend to focus our resources and management's attention on BOT and TOT projects as we believe there will be an increasing demand for such projects, which historically provided us with a higher overall gross profit margin compared to our BT projects, though the gross profit margin we achieved on the construction phase of our BT projects was higher than that for the construction phase of our BOT projects. Please see “— Our Project List” and the section headed “Financial Information” in this prospectus for further details of the gross profit margin we generated from our different businesses. For the years ended 31 December 2011, 2012 and 2013, our revenue from BT projects were RMB183.3 million, RMB293.2 million and RMB301.8 million, respectively, representing 24.9%, 29.3% and 22.5% of our total revenue for the respective year. Excluding the revenue generated from BT projects, our total revenue for the years ended 31 December 2011, 2012 and 2013 would have been RMB551.5 million, RMB706.2 million and RMB1,037.8 million, respectively, and our gross profit margin for the years ended 31 December 2011, 2012 and 2013 would have been 48.8%, 47.1% and 41.6%, respectively.

Given that (i) the target customers for our BT projects were similar to those for our service concession arrangement projects and (ii) the project process for our BT projects is similar to that for the construction phase of our BOT projects, we consider the inclusion of our BT project business in our Group during the Track Record Period was appropriate.

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The table below sets out certain details of our BT projects as at 31 May 2014:

Project	Construction scope	Repurchase period	Status	Relevant Repurchase price and terms of payment
Kaifeng BT project	Municipal infrastructure construction, including road construction and lakeside remediation	Four years	Repurchase process commenced for all phases	<p><i>Repurchase Price:</i> RMB97.4 million</p> <p><i>Terms of Payment (% of repurchase price):</i> 1st Year — 25%; 2nd Year — 25%; 3rd Year — 25%; and 4th Year — 25%</p>
Wendeng BT project	Municipal water supply and drainage pipe network construction, including water supply network in Nanhai New District, collection pipe network and drainage pipe network for Shandong Wendeng Nanhai Wastewater Treatment Plant	Four years	Repurchase process commenced for certain phases	<p><i>Repurchase Price:</i> RMB285.4 million⁽¹⁾</p> <p><i>Terms of Payment (% of repurchase price):</i> 1st Year — 30%; 2nd Year — 30%; 3rd Year — 20%; and 4th Year — 20%</p>

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Project	Construction scope	Repurchase period	Status	Relevant Repurchase price and terms of payment
Gaomi BT project	Municipal wastewater drainage pipe network construction	Three years	Repurchase process commenced for the first phase	<p><i>Repurchase Price:</i> RMB47.2 million⁽²⁾</p> <p><i>Terms of Payment (% of repurchase price):</i> 1st Year — 35%; 2nd Year — 35%; and 3rd Year — 30%</p>
Jilin BT project	Municipal infrastructure construction, including water supply, rainwater and drainage pipe network as well as corresponding pumping stations construction, road and road infrastructure construction	Three years	Under repurchase discussion process	<p><i>Repurchase Price:</i> Repurchase price is not yet available as project is still under repurchase discussion.</p> <p><i>Terms of Payment (% of repurchase price):</i> 1st Year — 40%; 2nd Year — 30%; and 3rd Year — 30%</p>

(1) Represents the repurchase price for seven phases of the project that have entered into the repurchase period.

(2) Represents the repurchase price for the first phase of the project that has entered into the repurchase period.

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Key Contract Terms of Our BT Projects

We enter into a project agreement with our customers for each of our BT projects. The agreement stipulates our rights and obligations with regard to our provision of construction services during the construction period and the customer's payment obligations. Below is a summary of the key contractual terms for our BT project agreements.

Construction, acceptance and completion settlement. Under our BT project agreements, we are responsible for hiring project managers, technical staff and other relevant professional staff to accomplish the construction work. Once the construction is complete, we are required to submit to the local government a final testing plan and a safety operation plan for final testing. Our customers typically engage Independent Third Party engineering companies to supervise the construction work.

Construction period. Most of our BT project agreements specify a construction period, which is generally 365 or 730 calendar days. The agreed construction period is conditioned upon the local government or its designees' fulfilment of certain obligations, which usually include: (i) procuring all necessary documents and data such as environmental assessment reports, construction permits and geological information and (ii) completion of requisition, demolition, compensation and settlement of structures on the site. The costs incurred during the construction period will be borne by us, which we will recover through the repurchase price to be paid by our customers.

Transfer/Repurchase. Unless otherwise stated in the BT project agreement, once the settlement and repurchase price is agreed with our customers, the repurchase period commences. In general, the repurchase price consists of the original price proposed when the project agreement was signed, and if additional work has been requested and done, any price adjustments made according to the actual work we conducted to be calculated according to a pre-determined rate of return. The repurchase period is generally three to four years. We request and generally receive annual payments from our customers during the repurchase period. The ownership to the project will be transferred to our customers in stages according to the proportion of the repurchase price paid by them. On the other hand, we transfer to our customers the operation and the entitlement to revenue of the entire project segment that is designated for a particular repurchase period at the beginning of the repurchase period. After the transfer, all of the risks and responsibilities arising from the project will be transferred to our customers. We usually provide a two year warranty for our BT projects commencing from the date of final inspection and acceptance, during which we are responsible for the costs of any rectification work required.

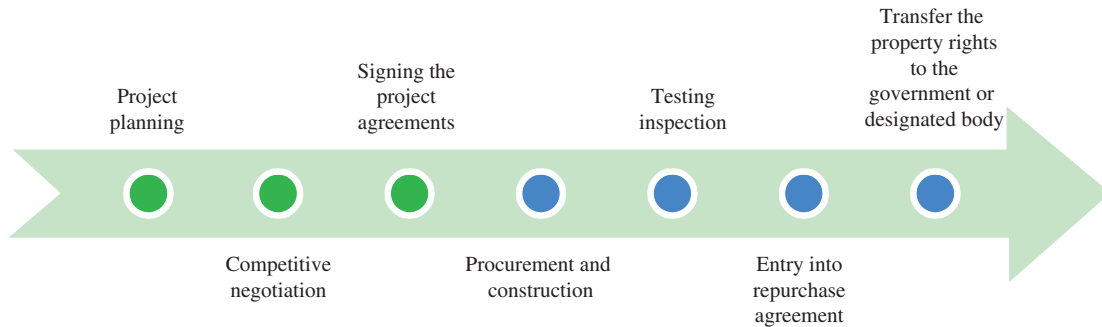
Price adjustments. We are generally entitled to adjust the price when any of the following events occur: (i) a change of laws, regulations, government policies and industry rules which affect our contract price; (ii) price adjustments published by cost management centre which affect our costs; (iii) failure of water, power and gas supply and blockage of roads due to reasons which were not our fault, which causes construction work to stop for more than eight hours; and (iv) any increase or decrease of costs for change of design or construction approval by the local government.

Breach of contract. If we fail to complete the construction of the project in time or fail to build the project in accordance with contract requirements, we may be required to pay liquidated damages to the customer. On the other hand if the local government fails to pay us in a timely manner, we are entitled to penalty payments generally equal to a certain percentage of the unpaid repurchase price. During the Track Record Period, no such damages or penalty were incurred by us or the customer.

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Project Management Process

The BT project management process is similar to that for our BOT projects, except that there is no operational stage. Our typical project management process for our BT projects is illustrated as follows:



O&M PROJECTS, OTHER CONSTRUCTION SERVICE PROJECTS AND OTHER WATER TREATMENT SERVICES

For our O&M project, we operate and maintain existing wastewater treatment facilities owned by our customers in exchange for a monthly fee. The fee we receive for the provision of O&M services is stipulated in the relevant agreements, which is in the form of a fixed service fee or guaranteed fee. We are usually appointed for a pre-agreed period and may be reappointed upon the expiry of the agreed contractual term. During the term of our appointment, we are responsible for all of the costs of repair and maintenance of the wastewater treatment facilities. We are not required to make any capital investment in the wastewater facilities under our O&M contract arrangements.

We also provide other construction services to some of our other customers, including removal work for the wastewater treatment facility at Jiaozuo and a reclaimed water project in the Jilin City. In addition, during the Track Record Period, we provided other water treatment services, such as other sewage and reclaimed water treatment. Revenue generated from O&M projects, other construction service projects and other water treatment services was not significant during the Track Record Period.

OUR KEY OPERATION CENTRES

We establish key operation centres to more effectively manage our operations throughout a project cycle. Our key operation centres collaborate closely with each other at key stages of the project and are all under the supervision of our Board. Please see “— BT Arrangements — Project Management Process” for further details.

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The following table sets forth our key operation centres as well as their major functions:

Operation Centre	Major Functions
Market expansion centre	Our market expansion centre is primarily responsible for sourcing new projects and formulating and implementing project investment plans based on our development strategies. Our market expansion centre also collects, analyses and organises market information to create a central information database.
Construction management centre	Our construction management centre is responsible for managing the construction aspect of our BOT (including new construction, expansion and upgrades) and BT projects. In addition, it assists in the maintenance of records and the transfer of our BT projects to our customers when the repurchase period ends.
Cost control management centre	Our cost control management centre is primarily responsible for ensuring that we meet our cost targets for each of our projects by creating a comprehensive system to formulate cost estimation before the commencement of a project, strictly controlling and analysing costs during both the project construction and operation stages and analysing costs after the completion of the project. In addition, it is responsible for maintaining the supplier and contractor management system.
Technology management centre	Our technology management centre is mainly responsible for the technical plans of our wastewater treatment service projects, for feasibility studies and for the evaluation and approval of initial technical designs. In addition, it organises technical experiments for our wastewater treatment projects, including the evaluation, research and development of new technologies, processes and equipment.
Water management centre	Our water management centre is chiefly responsible for managing, guiding, supervising and evaluating the work of each of our project companies as well as for resolving any problems that arise from the operation of these companies. We believe our water management centre strengthens our operational management and helps to minimise our operational risk and cost.

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Operation Centre	Major Functions
Financial management centre	Our financial management centre is primarily responsible for routine accounting work, financing activities, preparation of annual budgets, cash management, financial analysis, taxation management and preparation and implementation of accounting policies.
Risk control centre	Our risk control centre is responsible for identifying and evaluating the risks relating to our new projects. It is also engaged in the comprehensive management of our risk control system, including the evaluation and mitigation of operational risks. It prepares an annual risk control management plan, participates in the drafting and implementation of risk management measures and organises training regarding risk control.

SUPPLIERS AND CONTRACTORS

Our principal suppliers during the Track Record Period were contractors retained by us to construct and install our projects and suppliers of equipment and raw materials.

Contractors and Design Institutes

We typically engage Independent Third Party contractors on a project-by-project basis for the testing, survey, design and construction phases of our wastewater treatment facilities and the installation, testing and commissioning of the necessary equipment and systems for such treatment facilities. Maintaining the relevant personnel and equipment for the aforementioned services requires capital investment and is costly to maintain, and we believe it is more cost efficient to appoint contractors to conduct the aforementioned services than to conduct such services ourselves. We usually select construction contractors through a tender offer process.

The following are the key terms from the agreements with our contractors:

Our principal obligations: Our obligations include, among others, (i) obtaining relevant construction and land use permits, (ii) ensuring that water, electricity, telecommunications and transportation needs are met during the construction period and (iii) providing information regarding the geological characteristics around the construction site.

Principal obligations of contractors: The obligations of our contractors include, among others, (i) completing the construction according to our plans and (ii) providing and maintaining the lighting, fencing and security needed for construction.

Quality: Our contractors' work quality is required to meet the standards stipulated in our contract, which are based on national and industry standards. Our contractors are required to provide us complete documents and reports regarding the final inspection and acceptance of the construction. We then conduct our own inspection and acceptance procedures within a pre-determined period.

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Payment: Our construction contractors and other suppliers, including design institutes, usually do not grant credit terms to us but generally provide us a 30 day period to complete our internal payment process. We generally pay our construction contractors and other suppliers, including design institutes, according to the following terms:

For our construction contractors, we generally make progress payments on a monthly basis according to the percentage of construction completed in the previous month. We make such progress payments up to 70% to 75% of the total contracted amount during the construction period. We normally will have paid up to 95% of the total contracted amount in aggregate following the completion of the final acceptance test or audit of the relevant project. We settle the remaining balance after the end of the project warranty period, which is generally 24 months following the completion of the final acceptance test or audit of the relevant project.

For our other suppliers, including design institutes, we are typically required to pay approximately 20% of the total contracted amount as prepayments within seven days of the execution of the relevant contracts. Following the commencement of the construction, we are generally required to pay by instalments in accordance with the construction progress made during the relevant period. We are generally entitled to retain 5% of the total contracted amount as retention money for a warranty period that is usually two years. Such retention money will be released upon expiry of the warranty period.

Termination: We reserve the right to terminate our contract with our contractors if they outsource our project in part or in whole to third parties. Our contractor reserves the right to terminate the contract if construction is suspended for a pre-determined period because of our failure to pay the construction progress fee.

Confidentiality: We require that our contractors keep confidential the blueprints we provide to them. Our contractors are not allowed to make copies of the blueprints without our prior consent nor disclose them to third parties.

In addition, we hire qualified design institutes to assist us in designing the layout of the facilities and we require our contractors to construct the facilities according to the approved designs. We are responsible for the costs of such services. We also separately engage other service providers for environmental assessment, engineering survey, aerial view mapping and project mapping when such tasks are required. We pay the design institutes, engineering companies and contractors in instalments based on project benchmarks.

Raw Materials Procurement

Our contractors are generally responsible for the procurement of basic construction materials, such as cement, steel, cables and pipes at their cost.

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Equipment and Materials Procurement

We use various types of equipment and materials in our construction and operations of wastewater treatment facilities. The equipment we use includes water pumps, agitators, grid machines, aeration machines, mud scrapers, gates and check gates, and electric systems and autonomous control systems. During the operation phase of the project, we also use chemicals, such as polyacrylamide, polymeric aluminium and polyferric sulfate, which we procure in the PRC. We are responsible for selecting the suppliers of these materials.

We adopt a centralised procurement policy, pursuant to which, upon selecting the suppliers by our headquarters, the local project companies will enter into the purchase agreements with the equipment suppliers. We place great emphasis on the quality and timely delivery of equipment and materials provided by our suppliers and on ensuring that such equipment and materials conform to our technical and safety standards. Our procurement contracts usually require suppliers to provide relevant factory inspection certificates and grant us the right to conduct inspections upon delivery, after installation and debugging. We perform a thorough quality control screening of the equipment and materials provided by our suppliers prior to accepting such delivery, including a review of relevant certificates, quality of materials and services. In addition, we have a policy of performing batch sampling of raw materials that a supplier provides to us. Under this policy, we would terminate our relationship promptly with any supplier that fails to meet our required standards. Following our inspections and testing, we will issue a certificate of acceptance to the suppliers. We generally procure the materials, in particular the chemicals, on a regular basis or when such material has been depleted.

We have readily available alternative suppliers in the market who offer similar materials with comparable terms as our existing suppliers. To mitigate the risks associated with any reliance on our major suppliers, we periodically seek potential alternative suppliers and obtain quotations from such suppliers with the view to keeping in contact with potential suppliers who can offer favourable pricing and delivery terms. We generally do not enter into long term supply contracts with our equipment or materials suppliers. During the Track Record Period, we did not experience any shortages of raw material supplies.

In general, with respect to the equipment and materials we use for our projects, we pay an initial deposit of approximately 5% to 30% of the total contract value upon signing of the contract, with the final payment or further payments due in instalments to be paid upon delivery, installation and testing of the equipment. We generally enter into fixed-price contracts with no price adjustment mechanism. However, during the Track Record Period, we occasionally renegotiated terms of our equipment purchase agreements, including the purchase price of the equipment, and entered into supplemental purchase agreements with relevant equipment suppliers (i) at the request of our customers or (ii) due to adjustments in equipment supplied as a result of changes in project circumstances, including, among others, amendments to project design or altered equipment needs. Our contracts with the equipment and materials suppliers typically provide a 12 to 24 month warranty period for the purchased equipment and in many cases, we are entitled to retain 5% to 20% of the total contract value as retention money for the warranty period, which will be released to the supplier upon expiry of the warranty period. Our suppliers are responsible for liabilities arising out of product defects.

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Supplier and Contractor Management System

We adopt a centralised contractor and supplier management system, for which our cost control management centre is responsible. Our cost control management centre selects our contractors and suppliers based on a number of criteria, including, among others, qualifications, reputation, location, financial condition and track record, as well as the quality, pricing and payment terms of the materials or services to be provided by the applicable contractor or supplier. Our cost control management centre also supervises the procurement by our contractors of key construction materials, such as cement, steel, cables and pipes, for which our contractors are typically responsible pursuant to the terms of our construction contracts.

We select our contractors and certain suppliers by tender. We retain third party bid evaluation experts to assist us in evaluating the bids we receive from potential contractors and suppliers. In addition, we have established a database of contractors and suppliers with whom we have collaborated in the past in order to assist our selection during our procurement process for subsequent projects. Where practicable, we seek to appoint contractors or suppliers from our database. Prior to adding contractors and suppliers to our database, we conduct spot checks of their work quality or products. In addition, we conduct regular and ad hoc inspections on the quality of the services, equipment or materials provided by the contractors or suppliers, as applicable, who are in our database, and remove any that do not meet our quality standards.

Major Suppliers

For the years ended 31 December 2011, 2012 and 2013, our five largest suppliers were all construction contractors. Our total purchases from our largest contractor amounted to RMB31.4 million, RMB44.1 million and RMB107.8 million, respectively, representing 7.9%, 7.9% and 13.0% of our total cost of sales, respectively. For the years ended 31 December 2011, 2012 and 2013, total purchases from our five largest contractors amounted to RMB109.4 million, RMB168.3 million and RMB337.7 million, respectively, representing 27.6%, 30.2% and 40.9% of our total cost of sales, respectively.

None of our Directors, their associates or any Shareholders (who, to the knowledge of our Directors, owns more than 5% of our Company's share capital as at the Latest Practicable Date) had any interest in any of our five largest suppliers and contractors during the Track Record Period.

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Sensitivity Analysis

The concession period, i.e., the operation period, for our service concession arrangements generally starts after the construction period. The operation period is much longer than the construction period and our results of operations is more dependent on our financial performance during the operation period. As a result, we believe it is more meaningful to provide the sensitivity analysis for cost of sales for operations than our cost of sale for construction.

For the years ended 31 December						
Cost of Sales For Operations	2011		2012		2013	
	Changes in Net Profit	% Change in Net Profit	Changes in Net Profit	% Change in Net Profit	Change in Net Profit	% Change in Net Profit
	RMB'000	%	RMB'000	%	RMB'000	%
20%	130,783	-16.6	164,433	-16.3	196,418	-15.2
10%	143,836	-8.3	180,486	-8.2	213,991	-7.6
0%	156,890	0.0	196,540	0.0	231,563	0.0
-10%	169,944	8.3	212,594	8.2	249,135	7.6
-20%	182,997	16.6	228,647	16.3	266,708	15.2

OUR CUSTOMERS

Our customers are generally municipal, district or county level governments or their designees in the PRC. We usually enter into agreements with our customers to provide wastewater treatment and other services on a project-by-project basis. The percentage of our total revenue attributable to our top five customers in 2011, 2012 and 2013 was approximately 74.6%, 60.6% and 46.3%, respectively. The percentage of our total revenue attributable to our largest customer in 2011, 2012 and 2013 was approximately 25.1%, 15.7% and 16.0%, respectively. Except as disclosed in the “— Non-Compliance” section, we have not received any material complaints during the Track Record Period. For details of the contract terms with our customers, please see the description of key contract terms of our BOT, TOT and BT projects under the sections headed “— Service Concession Arrangements” and “— BT Arrangements” in this prospectus. 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 at the Latest Practicable Date, had any interest in any of our five largest customers during the Track Record Period.

SALES AND MARKETING

Our marketing activities are undertaken by our market expansion centre, which includes 18 sales and marketing employees as at 31 December 2013. We strive to secure projects in cities with growing demand for wastewater treatment and where our customers or potential customers have strong credit quality. We have focused on securing an initial project in a given geographical region, and then leveraging our familiarity with such region, the participants in the market and other regional characteristics to secure additional projects in other cities within the region. We believe that this expansion strategy enables us to realise economies of scale and gives us an opportunity to commence long-term collaboration with local government agencies following our demonstration of our technical

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capabilities and expertise through our projects. We believe that increased awareness by local governments of the quality of our wastewater treatment services and our treatment facilities will improve our reputation and allow us to establish stronger relationships with the local governments, which in turn will help strengthen our market presence and positioning in our industry. We intend to continue to work with other industry participants such as consultant agencies, to source new projects and expand our customer base. During the Track Record Period, we did not engage in extensive advertising in connection with our operations.

For the years ended 31 December 2011, 2012 and 2013, we incurred approximately RMB0.7 million, RMB2.5 million and RMB2.8 million of such sales and marketing expense, respectively.

Pricing

We determine the price for our projects based on multiple factors, including, among others, our project construction and operation costs, pricing of comparable projects and our competitor's pricing strategies. As a result, our average wastewater tariff for a relevant period is more reflective of the projects that we were engaged in during that period than our treatment capabilities or general operations during the same period. Please see "Financial Information — Principal Income Statement Components — Revenue" for further details.

The table below sets forth the average wastewater treatment tariffs for our service concession arrangement projects in operation by provinces in which such projects are located during the Track Record Period.

	2011	2012	2013
	(RMB per Tonne)		
Province			
Henan	0.84	0.89	0.89
Shandong	1.22	1.21	1.19
Anhui	0.80	0.80	0.91
Jiangsu	0.98	1.07	1.10
Other provinces ⁽¹⁾	1.18	1.18	1.15

Note:

(1) Other provinces include one project each in Beijing, Tianjin, Hebei and Heilongjiang.

Credit Policy

Payment terms for our projects are stipulated in our project contracts and vary from customer to customer, depending on factors such as customer profile, their creditworthiness and the size of the projects. For our BOT and TOT projects, we issue regular, usually monthly, invoices for our services. We regularly monitor the payment status of each customer.

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We generally do not grant credit terms to our BOT and TOT customers. During the Track Record Period, our BOT and TOT customers had generally repaid the amounts outstanding according to the payment schedules stipulated in the relevant service concession agreements. In the event that our customers failed to pay according to the respective payment schedules, we were able to expedite collection of delayed payments through our project managers, whose performance and compensation assessment includes a review of the project's tariff's collection record. Please see “ — Our Competitive Strengths — We have well-designed management systems that enhance our operational efficiency and have established a track record of timely wastewater tariff collection” for further details.

Our customers are generally local municipal, district or county governments or their designees in China, and their payments to us typically involve an internal approval process after receiving our invoices. Such approval process includes obtaining confirmation and/or clearance from the relevant government authorities for the payments of our services rendered during the relevant period. The approval process usually takes 20 to 30 days, and is followed by a period of time for payment settlement. As a result of the aforementioned procedures, we typically receive payments from our customers within 30 to 40 days after the issuance of invoices to these customers. Accordingly, during the Track Record Period, we had recorded average service concession arrangement trade receivables turnover days of 34.3 day, 37.4 days and 32.0 days, respectively, which were generally in line with the time required for our customers to complete their payment procedures. Please see the section headed “Financial Information — Liquidity and Capital Resources — Trade and Other Receivables — Trade and Bills Receivables” in this prospectus.

PROJECT FINANCING

We are responsible for funding the construction of the wastewater treatment facilities for our BOT and BT projects, as well as the acquisition cost for TOT projects. During the Track Record Period, we funded the development cost of most of our projects through internal resources, including cash from operations, from issuance of shares and from external bank loans from commercial banks in China. According to PRC laws and regulations, we are not allowed to incur loans that exceed 80% of the total project investment amount. Thus, we are required to provide for at least 20% of the total project investment amount internally or from shareholders. We generally receive financing of approximately 70% of the total investment amount from commercial banks for our projects.

Historically, our external bank borrowings generally included working capital loans and project loans. As at 31 December 2013, our outstanding loan balance amounted to RMB2,587.4 million. Our project loan agreements generally provide for a term ranging from five to 10 years. Our project loan agreements generally require us to buy certain insurance, including insurance covering construction related risk and completion delay, set the minimum amount for repayment of each quarter with reference to our fees collected from the projects. In addition, we are generally required to open an escrow account with the lending financial institution that is to be the designated account for receipt of monthly wastewater treatment fees from our customers. Our project loans are generally secured by the account receivable/concession rights of the project. Our project loans generally have longer terms and better match the time frame of our projects. Going forward, we seek to continue to finance our capital needs with more project loans.

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Most of our project loan agreements provide that without the bank's prior written consent, our project companies cannot conduct any reorganisation, merger, consolidation, change of equity holders, change of business model, transfer or sale of major assets, investment, guarantee, substantial increase of debt or other actions that may affect borrower's ability to repay the loan. During the Track Record Period, we have not breached any of our loan agreements. Please see "Risk Factors — Risks Relating to Our Business — We are restricted by covenants in our financing agreements" and "Financial Information — Indebtedness — Interest-bearing Bank Borrowings" for further details.

QUALITY CONTROL

We place great emphasis on ensuring we provide quality services to our customers. Our quality control team consists of employees from our key departments and wastewater treatment plants. We also have a team of 27 internal quality control personnel who have been specifically trained and passed relevant examinations. We conduct annual training and education on quality assurance standards for our staff to ensure that they are familiar with our quality control procedures. We have obtained the ISO9001 International Quality Management Certification and the ISO14001 Environmental Management System Certification by application with the relevant institutions.

During the project design phase, we apply our extensive project management experience in our analysis of conditions at the project sites to better predict the type and volume of pollutants and collaborate with our customers to assess their specific needs. During our project construction phase, we engage engineering companies to closely monitor the progress and the quality of our construction. Following the commencement of our project operations, we regularly monitor the level of pollutants in the incoming wastewater and make appropriate adjustments in our treatment approach with a view toward reducing operation costs while meeting the applicable regulatory standards. Save as disclosed, our high-quality solutions and advanced management control system have ensured that there was no material non-compliance with the applicable standards with respect to water treated in our wastewater treatment projects during the Track Record Period.

For our BOT projects, an Independent Third Party is usually engaged to conduct 24-hour, seven days a week monitoring on the water quality at the outlet of the wastewater pipeline network during our operational phase. In most cases, such monitoring service providers are engaged by the local environmental protection authorities to make sure the quality of treated wastewater meets the required standards, and in a few cases the service providers are engaged by us and their monitoring result will be instantly shared with the local environmental protection authorities.

We are of the opinion that our quality management is in compliance with the relevant laws, regulations and rules of the PRC in all material aspects. During the Track Record Period and up to the Latest Practicable Date, we have not incurred any penalties associated with material violation of any existing quality control law or regulation.

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RESEARCH AND DEVELOPMENT

We believe that we have strong research and development capabilities, which have enhanced our ability to design wastewater treatment solutions and enabled us to adapt existing technologies to suit the specific needs of our customers. We have established a technical management centre and continually recruited qualified professional staff, including senior engineers from international wastewater treatment enterprises to support our technical developments. We maintain a technical team of 10 personnel as at 31 December 2013. Our technical team primarily focuses on selecting and implementing wastewater treatment techniques that are suitable to our customers' need, and during this process, it also seeks to discover treatment techniques that enhance our operational efficiency, reduce our construction cost and are safe in the long-run. As a result of our research and development efforts, we have developed nine registered patents in the PRC as at the Latest Practicable Date.

During the Track Record Period, we have also collaborated with Independent Third Parties to develop wastewater treatment technologies in an efficient and cost-efficient manner based on the specific characteristics of the wastewater. For the years ended 31 December 2011, 2012 and 2013, we incurred expenses in an aggregate amount of RMB0.2 million, RMB20.2 million and RMB2.4 million, respectively, for our engagement of Independent Third Party research consultants. We have successfully applied some of the advanced technologies to our wastewater treatment processes. For instance, we developed a treatment process to fully utilise the bio-media/carrier and thus, the bio-chemical stage of the treatment process to handle wastewater from an area with high concentration of pharmaceutical enterprises. Through such process, we tap the potential of bio-chemical treatment technologies and improve the purification ability of pollutants and efficiency of the bio-chemical treatment system. We have completed the trial treatment and are in the final stage of preparing to implement the commercial operation of this treatment technology. We believe our innovative treatment process will be more cost-effective than the traditional process. We have successfully applied such technology to our Gaomi BOT project which has achieved Class I Standard A for wastewater treatment.

The following are the key terms from the collaboration agreements with Independent Third Parties:

Our principal obligations: Our obligations include, among others, (i) providing the fundamental materials and documents of which we should be responsible for the completeness, accuracy and timeliness to the collaborator within the prescribed time; and (ii) paying the deposit and fees to the contractor as stipulated in the contract.

Principal obligations of collaborators: The obligations of our collaborators include, among others, (i) procuring the necessary equipments for the collaboration program; (ii) ensuring that the collaboration program progresses according to schedule.

Payment: We are generally required to pay approximately 50% of the total consideration within three days of the execution of the contract. We are generally required to pay for the remaining consideration within three days following the completion of the collaboration program.

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Intellectual Property: Any intellectual property resulting from the collaboration program shall belong to the collaborator while we shall hold the right to use such intellectual property.

Confidentiality: Each party shall protect the intellectual property of the other party. Any party cannot revise, duplicate or transfer the documents of other party to any third party without the other party's prior approval.

Our research and development programs are typically designed to help improve our operation efficiency for a specific project. As a result, we include all research and development related costs in the costs for a project when they occur and do not record research and development expenses separately.

AWARDS AND RECOGNITION

We have won various awards and recognition in the PRC for our operations, as evidenced by the following awards and certificates:

Year	Award/Certificate	Awarding Body
2012	Certificate for Enterprise AAA Credit Grade	China Association of Environmental Protection Industry* (中國環境保護產業協會)
2012	Vice President Unit of the Fourth Council of China Association of Environmental Protection Industry* (中國環境保護產業協會第四屆理事會副會長單位)	China Association of Environmental Protection Industry
2011	2010 Core Enterprise of China Environmental Protection Industry* (2010年中國環境保護產業骨幹企業)	China Association of Environmental Protection Industry
2008	2008 Top 10 Enterprise of Chongqing Municipal Environmental Protection* Industry (重慶市環保產業2008年度十強企業)	Chongqing Municipal Association of Environmental Protection Industry* (重慶市環境保護產業協會)
2007	2006 Core Enterprise of China Environmental Protection Industry* (2006年度中國環境保護產業骨幹單位)	China Association of Environmental Protection Industry
2006	Member Certificate (Vice President Unit) of Chongqing Municipal Association of Environmental Protection Industry* (重慶市環境保護產業協會會員證書 (副會長單位))	Chongqing Municipal Association of Environmental Protection Industry

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Year	Award/Certificate	Awarding Body
2006	2005 Chongqing Bayu Cup Quality Engineering Award (2005年度重慶市巴渝杯優質工程獎) (for Chongqing Municipal Qianjiang District Main City Wastewater Treatment Plant* (重慶市黔江區主城污水處理廠))	Chongqing Municipal Construction Committee* (重慶市建設委員會) Chongqing Construction Industry Association* (重慶市建築業協會)
2005	Top 10 Enterprise of Chongqing Municipal Environmental Protection Industry* (重慶市環保產業十強企業)	Chongqing Municipal Association of Environmental Protection Industry
2004	Advanced Unit of Chongqing Municipal Environmental Protection* (重慶市環境保護先進單位)	Chongqing Municipal Environmental Protection Committee* (重慶市環境保護委員會)

During the Track Record Period, we have also received many operational awards, including “outstanding unit”* (先進單位) for wastewater treatment in 2012 issued by Department of Environmental Protection in Henan Province* (河南省環境保護廳) in 2013, “model unit”* (示範單位) for wastewater treatment performance assessment in Shandong in 2012 issued by Department of Housing and Urban-Rural Development in Shandong Province* (山東省住房與城鄉建設廳) in 2013, “outstanding unit”* (先進單位) for water supply and discharge in Shandong Province in 2011 issued by Shandong Urban Water Association* (山東省城鎮供水排水協會) and “outstanding unit for environmental protection”* (環保先進單位) in Shandong in 2011 issued by Gaomi municipality in 2012.

COMPETITION

According to the Frost & Sullivan Report, we are the leading privately-owned company for investing in and operating wastewater treatment facilities in China, with the largest total daily wastewater treatment capacity in operation among privately-owned wastewater investment and operation service providers in China as at 31 December 2013. It is expected that our leading position will be further strengthened as projects that are currently under construction become operational. According to Frost & Sullivan, China’s wastewater treatment industry is still experiencing high-growth and is expected to remain in this stage until 2020. There are currently three main groups of participants in the PRC municipal wastewater industry: (i) State-owned enterprises; (ii) privately-owned companies, i.e. listed or non-listed companies which are owned by non-state-owned enterprises or individuals and a majority of whose operation focus on the PRC market irrespective of its place of incorporation and (iii) foreign companies. The PRC wastewater treatment industry is currently dominated by SOEs. Since the opening of the PRC wastewater treatment industry to private investment in 2000, domestic private enterprises have gradually gained market share, driven by their high operational efficiency and strong adaptive abilities, which are made possible by their accumulated technical know-how. In addition, domestic private enterprises are generally more competitive than foreign enterprises because they understand the Chinese market better and have more experience interacting with the PRC Government. Among private operators, the municipal wastewater

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treatment market is extremely fragmented. As at 31 December 2013, only 19% of the privately-owned wastewater treatment projects were operated by the top five privately-owned investment and operation service providers in terms of treatment capacity in operation. For further discussion of the competitive landscape we face for our services, please refer to the “Industry Overview” section in this prospectus. Please also see “Risk Factors — Risks Relating to Our Business — Our inability to maintain our competitiveness could adversely affect our financial performance”.

INTELLECTUAL PROPERTY

We rely on patents and trademarks to protect our proprietary rights. As of the Latest Practicable Date, we had nine registered patents, three registered trademarks and one registered domain names in the PRC and three registered trademarks in Hong Kong. Our patents primarily relate to wastewater treatment technologies, including improved oxidation ditch, biodegradable technology and hydrolysis acidification tanks and equipment relating to distributing, extracting, regenerating or re-washing the active coke. We will continue to seek protection of our intellectual property rights and the proprietary technologies we develop. Please see “Risk Factors — Risks Relating to Our Business — We may fail to adequately protect our intellectual property rights, or could face claims of infringement of the intellectual property rights of others”. During the Track Record Period, our Group received certain patent infringement claims from one of its technical service providers in respect of the upgrade of Gaomi City Wastewater Treatment Plant (the “Upgrade Project”). On 18 March 2014, we held a settlement meeting with the technical service provider and as a result, we agreed to transfer rights to one patent application and two registered patents, which were not material to the operations of our business, to the technical service provider at nil consideration. As at the Latest Practicable Date, we have completed the transfer of the two registered patents according to the agreement reached during the settlement meeting with the technical service provider, but we did not complete the transfer of the patent application because the application expired prior to the transfer date. In return, the technical service provider agreed to surrender all of its rights to bring any claims against our Group, within or outside the PRC, in relation to, amongst others, any infringement of intellectual property rights or trade secrets relating to the Upgrade Project. Except as disclosed herein, we were not involved in any disputes or infringement of trademarks and patents during the Track Record Period.

PROPERTIES

According to our latest audited consolidated statements of financial position in the accountants’ report set forth in Appendix I to this prospectus, the total carrying amount of our property interests and our total assets as at 31 December 2013 were RMB50.2 million and RMB4,713.8 million, respectively. Furthermore, as at 31 December 2013 (i) no single property interest that formed part of our property activities (as defined in Rule 5.01 of the Listing Rules) and (ii) no single property interest that formed part of our non-property activities had a carrying amount of 15% or more of our total assets.

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Accordingly, we are not required by Chapter 5 of the Listing Rules to value or include in this Prospectus any valuation report of our property interests. Furthermore, pursuant to section 6(2) of the Companies Ordinance (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice, this prospectus is exempted from compliance with the requirements of section 342(1)(b) of the Cap. 32 Companies (WUMP) Ordinance in relation to paragraph 34(2) of the Third Schedule to the Cap. 32 Companies (WUMP) Ordinance, which requires a valuation report with respect to all our Company's interests in land or buildings.

Properties Owned by Our Group

As at the Latest Practicable Date, our Group owned two properties with a gross floor area of 10,600.92 square meters. Our Group's owned properties are primarily used for business and office purposes. As at the Latest Practicable Date, we have obtained proper certificates of building ownership and land use rights for all of such owned properties.

Properties Occupied By Us Under Concession Arrangements

As at the Latest Practicable Date, we occupied 27 parcels of land in connection with our BOT projects with a gross site area of 1,151,608.90 square meters, and we occupied 14 parcels of land in connection with our TOT projects with a gross site area of 785,903.30 square meters. Our BOT and TOT project companies occupied these parcels of land for the construction and/or operation of the wastewater treatment facilities, as the case may be, pursuant to the relevant concession agreements and/or relevant land use agreements.

Certificates and Permits

For our TOT projects, we generally obtain the buildings and structures built by the local governments or third parties. For our BOT projects, after we have entered into the relevant service concession agreements, we generally begin to apply for various certificates and permits that we need in order to commence construction of the wastewater treatment facilities, which are set forth below:

- Construction land use planning permit (建設用地規劃許可證). A permit authorising an entity to begin the survey, planning and design of a parcel of land;
- Land use rights certificate (國有土地使用證). A certification of the right of a party to use a parcel of land;
- Construction 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; and
- Construction work commencement permit (建築工程施工許可證). A permit required for the commencement of construction.

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Property Defects

Generally, each of our projects occupies one parcel of land, except in certain circumstances where different projects, such as two of our BOT projects in Shandong Yucheng, which occupy and use the same parcel of land, and two of our TOT projects in Anhui Suzhou, which occupy and use the same parcel of land. The particular service concession contractual arrangement generally determines whether the land to be used for the particular project is expected to be held by us or by the local governments or their designees. As at the Latest Practicable Date, of the 41 parcels of land we occupied for our BOT and TOT projects, we have obtained the relevant land use rights certificates for all 16 parcels of land that were occupied by us, with a gross site area of 741,327.98 square meters, for which we were responsible for obtaining the relevant land use rights certificates. As for the remaining 25 parcels of land occupied by us, our customers or their designees were responsible for obtaining the relevant land use rights certificates under the terms of the relevant service concession agreements and/or land use agreements or other relevant documents. Of these 25 parcels, (i) we occupied 17 parcels of land with a gross site area of 806,814.33 square meters under the relevant service concession agreements and/or land use agreements, where our customers or their designees had the relevant land use rights certificates, (ii) we occupied four parcels of land used for four of our BOT projects with a gross site area of 164,561.19 square meters under our relevant service concession agreements where the land use rights of such parcels of land are expected to be obtained by our customers or their designees pursuant to the relevant supplemental service concession agreements but who have not yet obtained such certificates, and (iii) we occupied four parcels of land with a gross site area of 224,808.70 square meters under the relevant service concession agreements and/or land use agreements, which are used and occupied by our five TOT projects (our Anhui Suzhou Chengnan Wastewater Plant 1 and Plant 2 projects occupy and use the same parcel of land), where our customers did not have the relevant land use rights certificates. The following table sets forth the status of the relevant land use rights certificates with respect to the parcels of land we occupied as at the Latest Practicable Date.

<u>Land Type</u>	<u>Number of Parcels of Land</u>	<u>Gross Site Area (Square meters)</u>
Land occupied by us for which we are responsible for obtaining the land use rights certificates		
Relevant land use rights certificates obtained by us	16	741,327.98
Subtotal	<u>16</u>	<u>741,327.98</u>
Land occupied by us for which our customers or their designees are responsible for obtaining the land use rights certificates		
Relevant land use rights certificates obtained by our customers or their designees	17	806,814.33
Relevant land use rights certificates not yet obtained by our customers or their designees	<u>8⁽¹⁾</u>	<u>389,369.89</u>
Subtotal	<u>25</u>	<u>1,196,184.22</u>
Total	<u><u>41⁽²⁾</u></u>	<u><u>1,937,512.20</u></u>

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Notes:

- (1) Includes (i) four parcels of land with a gross site area of 224,808.70 square meters occupied and used by five TOT projects and (ii) four parcels of land with a gross site area of 164,561.19 square meters occupied and used by four BOT projects for which we have entered into supplemental service concession agreements with our customers or their designees pursuant to which they will be responsible for obtaining the relevant land use rights certificates.
- (2) We have a total of 49 projects in operation and pending operation as at the Latest Practicable Date. In certain cases, different projects held by the same project company occupy the same parcel of land and projects held by different project companies, such as in the case involving our Anhui Suzhou Chengnan Wastewater Treatment Plant 1 and Anhui Suzhou Chengnan Wastewater Treatment Plant 2, share a parcel of land. In addition, the Dongying Project that is currently undergoing upgrading occupied two parcels of land as at the Latest Practicable Date. We also have one BOT project in Shandong Liangshan and one BOT project in Jiangsu Feng County that are in the planning phase, and which have therefore not occupied any parcel of land as at the Latest Practicable Date.

We are entitled to occupy and use the parcels of land with defective titles that are expected to be held by our customers or their designees in accordance with the terms of the relevant service concession agreements and/or the land use agreements. According to the relevant service concession agreements, such parcels of land shall be transferred by the relevant governments to the relevant customers or their designees by way of allocation. Our PRC legal adviser, Commerce & Finance Law Offices, is of the view that no land premium will be collected in connection with such allocation because land premium does not apply to allocated land use rights. Furthermore, several of our BOT and TOT projects did not obtain the relevant construction land use planning permit, construction planning permit or construction work commencement permit or had not passed the relevant acceptance check on completion of construction as at the Latest Practicable Date. However, for our TOT projects, the properties were generally transferred to us from third-party project companies and we were not responsible for the construction of the facilities (with the exception of our Dongying Project), which is currently under upgrading and for which we are responsible for the construction of the facilities and are required to obtain the relevant land use rights certificate and the relevant permits for construction by ourselves).

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Details of the properties we occupied as at the Latest Practicable Date under our service concession arrangements that are missing the relevant land use rights certificates are set forth below:

BOT Project	Responsible Party	Competent Government Authority Issuing/Providing Confirmation ⁽¹⁾	Remedies	Potential Financial Impact ⁽³⁾							
				Financial Receivables as at 31 December 2013	% of Total Assets as at 31 December 2013	Revenue For 2013	% of Total 2013 Revenue	Maximum Penalty For Missing Certificate	% of Profit for the Year for 2013		
				RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
Shangqiu Liangyuan Industrial Parks Wastewater Treatment Plant	Public Services Bureau of Shangqiu City Liangyuan District***	Liangyuan Branch of Bureau of Land and Resources of Shangqiu City	Public Services Bureau of Shangqiu City Liangyuan District	61,183	1.3	45,754	3.4	1,814	0.8		
Henan Jiyuan Yuchuan Industry Cluster District Wastewater Treatment Plant for District A Phase I*	Administrative Committee of Jiyuan City Yuchuan Industry Cluster District or its designee***	Bureau of Land and Resources of Jiyuan City	Jiyuan City People's Government Administrative Committee of Jiyuan City Yuchuan Industry Cluster District	43,282	0.9	1,078	0.1	553	0.2		
Hebi Baoshan Circular Economy Industrial Zone Water Supply Project	Administrative Committee of Hebi Baoshan Circular Economy Industrial Cluster Zone or its designee***	Bureau of Land and Resources of Hebi City	Administrative Committee of Hebi Baoshan Circular Economy Industrial Cluster Zone	39,645	0.8	23,725	1.8	1,125	0.5		
Hebi Baoshan Circular Economy Industrial Zone Wastewater Treatment Plant Phase I	Administrative Committee of Hebi Baoshan Circular Economy Industrial Cluster Zone or its designee***	Bureau of Land and Resources of Hebi City	Administrative Committee of Hebi Baoshan Circular Economy Industrial Cluster Zone	81,017	1.7	65,238	4.9	1	0.0		
TOT Project											
Shandong Haiyang Wastewater Treatment Plant ***(4)	Housing and Urban Rural Construction Management Bureau of Haiyang City	Land and Resources Bureau of Haiyang City	Housing and Urban Rural Construction Management Bureau of Haiyang City	18,774	0.4	4,344	0.3	599	0.3		
Anhui Suzhou Chengnan Wastewater Treatment Plant (a local government designee) ⁽⁵⁾⁽⁶⁾	Suzhou Chengnan Wastewater Treatment Plant (a local government designee)	Land and Resources Bureau of Suzhou City	Suzhou City People's Government	115,112	2.4	14,608	1.1	1,911	0.8		
Anhui Suzhou Chengnan Wastewater Treatment Plant ⁽⁵⁾⁽⁶⁾	Suzhou Chengnan Wastewater Treatment Plant (a local government designee)	Land and Resources Bureau of Suzhou City	Urban City Management Bureau of Suzhou City	115,969	2.5	3,874	0.3	1,911	0.8		
Hua Dian Wastewater Treatment Plant ⁽⁷⁾	Huadian Urban Construction Development Co., Ltd. (a local government designee)	Bureau of Land and Resources of Huadian City	Huadian City People's Government and Huadian Urban Construction Development Co., Ltd.	12,321	0.3	—	—	991	0.4		
Linying Wastewater Treatment Plant	Linying County People's Government	Bureau of Land and Resources of Linying County	Linying County People's Government	22,652	0.5	5,224	0.4	1,332	0.6		

Notes:

- * Projects we obtained as a result of our acquisition of Beijing Chang Sheng in 2013.
 - ** We obtained the project and the relevant property from a third party who is the previous concession rights holder of such BOT project in October 2010.
 - *** We have entered into a supplemental service concession agreement with the relevant customer or its designee pursuant to which such customer or its designee will be responsible to obtain the relevant land use rights certificate, which will be issued in its name.
- (1) Confirmations include, among others, no-penalty confirmations and confirmations for the use of land.
 - (2) In addition to the indemnities listed, we have also obtained an indemnity provided by each of our Controlling Shareholders in favour of our Group in respect of any liabilities, damages, fines, penalties, costs, losses or expenses which may be payable by our Group as a result of the non-compliance with relevant PRC regulations in respect of each of the properties listed.
 - (3) Potential financial impact only relates to the four BOT projects and five TOT projects, which we or our customers or their designees are responsible for obtaining the relevant land use rights certificates, absent which we may be required to return the land, and it is calculated based on our (i) financial receivables as at 31 December 2013, (ii) revenue for 2013 and (iii) maximum penalty for missing the relevant certificates.
 - (4) According to the relevant land use agreement, Housing and Urban Rural Construction Management Bureau of Haiyang City is the legal owner of such land use rights. In addition, on 14 April 2014, a telephone interview was conducted with an official at the Land and Resources Bureau of Haiyang City who confirmed that Housing and Urban Rural Construction Management Bureau of Haiyang City is in the process of applying for the land use rights certificate and we may use the relevant land for construction of the relevant project and no penalty will be imposed on us for the lack of the relevant land use rights certificate.
 - (5) Anhui Suzhou Chengnan Wastewater Treatment Plant 1 and Anhui Suzhou Chengnan Wastewater Treatment Plant 2, which are projects held by two separate project companies, occupy and use the same parcel of land.
 - (6) On 14 April 2014, a telephone interview was conducted with an official at the Land and Resources Bureau of Suzhou City who confirmed that we may use the relevant land and no penalty will be imposed on us for the lack of the relevant land use rights certificates for the project.

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Details of the properties we occupied as at the Latest Practicable Date under our service concession arrangements that are missing certain construction permits and/or have not passed the relevant acceptance checks on completion of construction are set forth below:

BOT Project	Missing Permits/Filings	Responsible Party	Remedies			Potential Financial Impact ⁽³⁾					
			Competent Government Authority Issuing/Providing Confirmation ⁽¹⁾	Indemnities From Local Governments or Their Designees ⁽²⁾	Financial Receivables For 2013	% of Total Assets as at 31 December 2013	Revenue For 2013	% of Total 2013 Revenue	Maximum Penalty For Missing Filings	% of Profit for the Year for 2013	
Shangqiu Liangyuan Industrial Parks Wastewater Treatment Plant	Construction Planning Permit	Shangqiu Kangda (held by our Group)	Liangyuan Branch of Urban and Rural Planning Bureau of Shangqiu City	Shangqiu City Liangyuan District Public Affairs Bureau	RMB'000 61,183	1.3	45,754	3.4	RMB'000 2,400	1.0	
Henan Jiyuan Yuchuan Industry Cluster District Wastewater Treatment Plant for District A Phase I*	Construction Planning Permit	Jiyuan Yuchuan Chengjian Sewage (held by our Group)	Urban and Rural Planning Management Bureau of Jiyuan City	—	43,282	0.9	1,078	0.1	1,788	0.8	
	Construction Work Commencement Permit		Housing and Urban Rural Construction Bureau of Jiyuan City	—	—	—	—	—	358	0.2	
Hebi Baoshan Circular Economy Industrial Zone Water Supply Project	Construction Land Use Planning Permit	Hebi Kangda (held by our Group)	Urban and Rural Planning Bureau of Hebi City	—	39,645	0.8	23,725	1.8	1,125	0.5	
	Construction Planning Permit		Urban and Rural Planning Bureau of Hebi City	—	39,645	0.8	23,725	1.8	1,302	0.6	
	Construction Work Commencement Permit		Housing and Urban Rural Construction Bureau of Hebi City	—	—	—	—	—	130	0.1	

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	Remedies			Potential Financial Impact ⁽³⁾						
	Missing Permits/Filings	Responsible Party	Competent Government Authority Issuing/Providing Confirmation ⁽¹⁾	Indemnities From Local Governments or Their Designees ⁽²⁾	Financial Receivables For 2013	% of Total Assets as at 31 December 2013	Revenue For 2013	% of Total 2013 Revenue	Maximum Penalty For Missing Filings	% of Profit for the Year for 2013
					RMB'000	%	RMB'000	%	RMB'000	%
BOT Project										
Hebi Baoshan Circular Economy Industrial Zone Wastewater Treatment Plant Phase I	Construction Land Use Planning Permit Construction Planning Permit Construction Work Commencement Permit	Hebi Water Treatment (held by our Group)	Urban and Rural Planning Bureau of Hebi City Urban and Rural Planning Bureau of Hebi City Housing and Urban Rural Construction Bureau of Hebi City	—	81,017	1.7	65,238	4.9	1	0.0
Gaomi Third Wastewater Treatment Plant Phase I ⁽⁴⁾	Acceptance Check on Completion of Construction	Gaomi Sewage Treatment (held by our Group)	Housing and Urban Rural Construction Bureau of Gaomi City	—	—	—	—	—	1,145	0.5
Gaomi Third Wastewater Treatment Plant Phase II ⁽⁴⁾	Construction Work Commencement Permit	Gaomi Sewage Treatment (held by our Group)	Housing and Urban Rural Construction Bureau of Gaomi City	—	—	—	—	—	227	0.1
Shandong Yucheng No. 2 Wastewater Treatment Plant Phase I ⁽⁵⁾	Construction Work Commencement Permit	Yucheng Dongjiao Chengjian Sewage Treatment (held by our Group)	Housing and Urban Rural Construction Bureau of Yucheng City	—	—	—	—	—	510	0.2
Shandong Yucheng No. 2 Wastewater Treatment Plant Phase II ⁽⁵⁾	Construction Work Commencement Permit	Yucheng Dongjiao Chengjian Sewage Treatment (held by our Group)	Housing and Urban Rural Construction Bureau of Yucheng City	People's Government of Yucheng City	—	—	—	—	291	0.1
Jiaozuo City Wastewater Treatment Plant Phase II	Acceptance Check on Completion of Construction ⁽⁶⁾	Kangda Environmental (held by our Group)	Housing and Urban Rural Construction Bureau of Jiaozuo City	—	—	—	—	—	1,959	0.8

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		Remedies					Potential Financial Impact ⁽³⁾				
	Missing Permits/Filings	Responsible Party	Competent Government Authority Issuing/Providing Confirmation ⁽¹⁾	Indemnities From Local Governments or Their Designees ⁽²⁾	Financial Receivables For 2013	% of Total Assets as at 31 December 2013	Revenue For 2013	% of Total 2013 Revenue	Maximum Penalty For Missing Filings	% of Profit for the Year for 2013	
											RMB'000
BOT Project											
Beijing Daxing District Caiyu Town Economic Development Zone Wastewater Treatment Plant ⁽⁷⁾	Construction Planning Permit Construction Work Commencement Permit Acceptance Check on Completion of Construction	People's Government of Beijing Daxing District Caiyu Town	—	People's Government of Beijing Daxing District Caiyu Town	26,504	0.6	—	—	860	0.4	
					—	—	—	—	172	0.1	
					—	—	—	—	344	0.1	
TOT Project											
Dongying Port North Economic Development Zone Wastewater Treatment Plant ⁽⁸⁾	Construction Planning Permit Construction Work Commencement Permit	Dongying Kangda (held by our Group)	Dongying Port Economic Development Zone Branch of Dongying City Urban and Rural Planning Bureau Construction Bureau of Dongying Port Economic Development Zone	—	124,539	2.6	80,658	6.0	4,191	1.8	
					—	—	—	—	838	0.4	

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	Remedies			Potential Financial Impact ⁽³⁾						
	Missing Permits/Filings	Responsible Party	Competent Government Authority Issuing/Providing Confirmation ⁽¹⁾	Indemnities From Local Governments or Their Designees ⁽²⁾	Financial Receivables For 2013	% of Total Assets as at 31 December 2013	Revenue For 2013	% of Total 2013 Revenue	Maximum Penalty For Missing Filings	% of Profit for the Year for 2013
BOT Project										
Linying Wastewater Treatment Plant	Construction Land Use Planning Permit	Linying County People's Government	Housing and Urban Rural Planning & Construction Bureau of Linying County	Linying County People's Government	RMB'000 22,652	% 0.5	RMB'000 5,224	% 0.4	RMB'000 1,332	% 0.6
	Construction Planning Permit		Housing and Urban Rural Planning & Construction Bureau of Linying County		22,652	0.5	5,224	0.4	14	0.0
	Construction Work Commencement Permit		Housing and Urban Rural Planning & Construction Bureau of Linying County		—	—	—	—	3	0.0

Notes:

- * Projects we obtained as a result of our acquisition of Beijing Chang Sheng in 2013.
- (1) Confirmations include, among others, no-penalty confirmations and confirmations for the continuation of construction work.
- (2) In addition to the indemnities listed, we have also obtained an indemnity provided by each of our Controlling Shareholders in favour of our Group in respect of any liabilities, damages, fines, penalties, costs, losses or expenses which may be payable by our Group as a result of the non-compliance with relevant PRC regulations in respect of each of the properties listed.

- (3) Potential financial impact only relates to the 10 BOT projects and two TOT projects (including the upgrading of the Dongying Project), which we or our customers or their designees are responsible for obtaining the relevant planning and/or construction permits and/or completing the acceptance check procedures, absent which we may be required to halt construction and/or pay fines, and is calculated based on our (i) financial receivables as at 31 December 2013; (ii) revenue for 2013; and (iii) maximum penalty for missing the relevant permits or not completing the acceptance check procedures.
- (4) The same project company, Gaomi Sewage Treatment, undertakes both projects.
- (5) Shangdong Yucheng No. 2 Wastewater Treatment Plant Phase I and Shangdong Yucheng No. 2 Wastewater Treatment Plant Phase II occupy and use the same parcel of land.
- (6) The relevant competent government authority, Housing and Urban Rural Construction Bureau of Jiaozuo City, has issued a confirmation to us that it has accepted our application to conduct acceptance check on completion of construction and the relevant procedures were being conducted.
- (7) According to the relevant service concession agreement, our customer, People's Government of Beijing Daxing District Caiyu Town ("Caiyu Town Government"), is obligated to handle the procedures for construction and under whose name the relevant competent government authority is expected to issue the missing permits for construction. We have fulfilled our obligations under the relevant agreement, including, among others, the completion of main design and other preparatory stages of the project. We have maintained ongoing communications with Caiyu Town Government with respect to the application for the missing permits for construction. In addition, we have requested Caiyu Town Government to confirm the status of such application process. However, since Caiyu Town Government is required to indemnify us for the relevant losses which may arise in connection with the use and occupation of the land by the relevant project company under the relevant service concession agreement, it is of the view that a confirmation to be issued in the name of our Company (or the relevant project company) with respect to the missing permits for construction would not be necessary.
- (8) This project is currently undergoing upgrading and occupied two parcels of land as at the Latest Practicable Date.

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Legal Consequences

Our PRC legal adviser, Commerce & Finance Law Offices, has advised us that:

Land Use Rights Certificate — According to the relevant PRC laws and regulations, any unauthorised occupation of land (including parcels of land held by us and parcels of land held by the local governments or their designees in accordance with the arrangement under certain service concession agreements) is subject to the return of land under the order of the competent land authority of the people's government at or above the county level. For those which are in compliance with the overall land use planning, the competent land authority may forfeit the newly-built structures and other facilities on the unlawfully occupied land and impose fines of below RMB30 per square meter of the unlawfully occupied land.

Construction Land Use Planning Permit — In the event a construction entity fails to obtain this permit, the relevant PRC government authorities at or above the county level may (i) revoke such authorisation; (ii) seize the land; and/or (iii) impose an obligation on the construction entity to pay compensation for any loss incurred by the party(ies) concerned.

Construction Planning Permit — For construction work carried out without this permit, the relevant PRC government authority at or above the county level may order the cessation of construction. If the impact on the planning caused by such construction can be eradicated, the relevant PRC government authorities may order the construction entity to rectify such impact and an additional fine of not less than 5% but not more than 10% of the construction cost may be imposed. If such impact cannot be eliminated, the relevant PRC government authority may (i) order the construction entity to demolish the construction work; (ii) confiscate the buildings or structures or any income illegally earned from such project; and/or (iii) impose a fine of not more than 10% of the construction cost.

Construction Work Commencement Permit — If construction work is carried out without this permit, the relevant PRC government authorities may (i) order the construction entity to halt construction; (ii) order the construction entity to rectify within a prescribed period and/or (iii) impose a fine of not less than 1% but not more than 2% of the contract price of the project.

Acceptance Check on Completion of Construction — If a construction project is delivered for use without passing the relevant completion inspections, the construction entity may be ordered to rectify and may be obliged to pay compensation where any damage has been caused. A fine of not less than 2% but not more than 4% of the contract price of the project may also be imposed.

Reasons for Property Defects

With respect to the four BOT projects we obtained through our acquisition of Beijing Chang Sheng in 2013, we have not obtained the relevant land use rights certificates, planning permits and construction permits, as the case may be, primarily because the parcels of land were occupied by the relevant third-party project companies prior to our acquisition. We have begun to apply for the relevant certificates and permits after the acquisition. We commenced construction and/or operations without first obtaining the relevant certificates and/or permits with respect to these projects primarily

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due to one of the following reasons: (i) certain of our customers, which are local governments or their designees, have requested us to commence project construction and/or operations in a relatively short timeframe before we completed the application process to obtain the relevant certificates and/or permits or (ii) certain of these projects had already completed construction and commenced operations prior to our acquisition in 2013.

With respect to each of our other BOT projects not obtained through our acquisition of Beijing Chang Sheng and the upgrading of the Dongying Project, we did not obtain the relevant certificate and/or permit and/or did not complete the relevant acceptance check procedure or commenced construction and/or operation without them primarily due to one of the following reasons:

- We were required by certain of our customers, which are local governments or their designees, to commence project construction and/or operations in a relatively short timeframe before the certificates and/or permits are issued to us by the relevant government authorities; or
- Delays on the part of the relevant government authorities in issuing applicable certificates and/or permits to us after we submitted the applications; or
- The issuance of one type of certificate or permit depends on whether another type has been issued. For example, without the construction land use planning permit, we will generally not be able to obtain the relevant land use rights certificate, without which we will generally not be able to obtain the relevant construction planning certificate and construction work commencement permit. In addition, the acceptance check on completion of construction generally cannot be completed if the relevant certificates and/or permits for construction were not obtained.

For our TOT projects, the relevant parcels of land were typically occupied by third-party project companies prior to the transfers of the assets to us pursuant to the relevant service concession agreements. Accordingly, such third parties (except for the Dongying Project, for which we are required to obtain the land use rights certificates and the relevant construction permits relating to the upgrading of the project under the relevant service concession agreement) were generally contractually required to obtain the relevant land use rights certificates and we were not responsible for obtaining such certificates. In addition, since we are not responsible for the construction of such TOT projects, we are not required to obtain any planning and/or construction permits and to complete the acceptance check procedures.

Remedies

A. Properties with Competent Government Confirmations

With respect to parcels of land where we have not obtained the relevant land use rights certificates, relevant planning permits and/or construction permits or our customers or relevant third parties have not obtained the relevant land use rights certificates, we have taken steps to obtain the relevant permits and certificates by applying and/or reporting to the relevant local government authorities (who are usually obligated to assist us in obtaining the relevant property permits and

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certificates pursuant to the terms of our concession agreements) to urge them to arrange for the relevant certificates and permits to be issued to us, our customers or the relevant third parties. The time required to obtain the relevant certificates and permits depends on the time such government authorities will need to complete their internal procedures.

However, for the property non-compliance incidents identified in the tables above, we have obtained written confirmations from competent government authorities with respect to 13 service concession arrangement projects (including confirmations for the missing construction and planning permits of our Dongying Project), which include, among other things, no penalties will be levied on the relevant project companies for the lack of relevant certificates, permits or procedures, and the relevant project companies may continue to use and occupy the relevant land or buildings and/or carry out construction work on such land. In addition, on 14 April 2014, two telephone interviews with officials from the relevant competent government authorities were conducted with respect to our lack of the relevant land use rights certificates for one BOT project and two TOT projects. The officials have confirmed that we may continue to use the relevant land in connection with such projects and no penalty will be imposed on us for the lack of the relevant land use rights certificates.

Based on such written and verbal confirmations, (i) we consider that the possibility of forced relocation of these properties due to lack of proper title or planning or construction permits or procedures is remote, and (ii) our PRC legal adviser has advised that the risk of the government authorities imposing any penalty on such project companies is remote. Our PRC legal adviser, Commerce & Finance Law Offices, is also of the view that the relevant government authorities set out in the table above have the authority to give the relevant confirmations.

In addition, with respect to parcels of land where our customers or their designees are required to but have not obtained the relevant land use right certificates, based on (i) the relevant written and verbal confirmations, (ii) in addition to the foregoing confirmations for all relevant projects, in certain cases, there are also confirmations made by our customers who are responsible to obtain the relevant land use rights certificates under the relevant service concession agreements or the confirmations made by the Company's customers or their designees who are responsible to obtain the relevant land use rights certificates under the relevant land use agreements, that they have the rights to use the relevant parcels of land, and (iii) the fact that our occupation and use of such parcels of land have never been challenged by any third party, our PRC legal adviser, Commerce & Finance Law Offices, is of the view that such customers or their designees have the right to provide the relevant land to our project companies. Furthermore, based on (i) such written and verbal confirmations, (ii) the fact that our occupation and use of such land have never been challenged by any third party, and (iii) that fact that our relevant customers or their designees who are responsible to obtain the relevant land use rights certificates under the relevant service concession agreements and/or the land use agreements have the right to provide the relevant land to our project companies, our PRC legal adviser has advised us that (i) the relevant project companies that have obtained the corresponding written and verbal confirmations issued or advised by the competent government authorities have the right to occupy and use the relevant parcels of land for the construction and operation of the relevant service concession arrangement projects in accordance with the underlying service concession agreements and/or the land use agreements (ii) the risk that the occupation and use of such land by the relevant project companies could be challenged by any third party is remote.

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Although our PRC legal adviser has advised that, based on the relevant confirmations received from the competent government authorities, the risk of any penalty being levied against our relevant project companies having obtained such confirmations is remote, in the event the relevant government authorities decide to take action against us despite the confirmations given, we may be ordered to return the land, cease construction, rectify the non-compliance and/or pay fines, as stipulated under the applicable PRC laws and regulations for the lack of proper land use rights certificates, and/or the relevant permits or procedures.

B. Properties with Indemnities

According to the relevant service concession agreements and/or land use agreements entered into between the relevant local governments and/or their designees and us with respect to 11 service concession arrangement projects, the relevant project companies may use and occupy the land within the concession period stipulated in the respective service concession agreements, land use agreements or other applicable documents and/or carry out construction work on such land, and each of them has agreed to indemnify us for relevant losses which may arise in connection with our use and occupation of the land.

For our BOT project, Beijing Daxing District Caiyu Town Economic Development Zone Wastewater Treatment Plant, according to the relevant service concession agreement and land use agreement, People's Government of Beijing Daxing District of Caiyu Town is obligated to handle the procedures for construction.

With respect to the projects where we only obtained indemnities from the local governments or their designees as identified in the table above, our PRC legal adviser is of the view that these projects are still subject to the risk of being penalised by the competent government authorities because indemnity provisions (i) are merely contractual obligations of the indemnifying party(ies), (ii) are not similar to confirmations from competent government authorities, which, in effect, grant waivers for certain instances of non-compliance and (iii) are not provided by the competent government authorities having legal jurisdiction and/or authority over particular instances of non-compliance. Based on the due diligence conducted by the Joint Sponsors, and in particular, the reviews of the legal opinions of the PRC legal advisers to the Company, documents and information provided by the Company and its Directors, the Joint Sponsors concur with such view. However, as advised by our PRC legal adviser, Commerce & Finance Law Offices, we are entitled to seek indemnifications from our customers or relevant third parties that entered into service concession agreements and/or land use agreements with us according to the relevant service concession agreements and/or land use agreements if there are penalties imposed on us. Accordingly, we believe the risk of our Group suffering any economic loss in connection with the lack of the relevant certificates, permits and/or procedures is remote. Furthermore, since the indemnifying parties are either local governments or their designees, we have no reason to doubt that they would not have the capacity to fulfil their contractual obligations or honour such indemnities in the relevant service concession agreements and/or land use agreements.

Furthermore, each of our Controlling Shareholders has agreed to provide an indemnity in favour of our Group in respect of any liabilities, damages, fines, penalties, costs, losses or expenses which may be payable by our Group as a result of above-mentioned non-compliance with relevant PRC regulations.

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Our Directors are of the view that for the reasons stated herein, the title defects of the properties we occupy under the relevant service concession agreements did not have any material adverse effect on and, are not individually or collectively crucial to, our operations.

Rectification Measures and Improvement of Internal Control Measures

With respect to the projects for which we are required to obtain the relevant certificates and/or permits, and/or complete the relevant procedures by ourselves, we are in the process of applying for such certificates and/or permits, and/or of initiating acceptance check on completion of construction. We will use our best efforts to communicate with the relevant government authorities periodically to obtain appropriate confirmations and monitor the progress of our applications. In this regard, we rely on our marketing department and construction management centre, our project managers as well as certain members of our senior management to establish and maintain contact with the relevant government officials responsible for processing such applications. However, our applications depend, to a large extent, on government internal procedures and therefore, we cannot guarantee the timing in which such government authorities will provide appropriate confirmations or issue the relevant certificates and/or permits to us. Please see “Risk Factors — Risks Relating to Our Business — Certain defects in land use rights and the lack of relevant planning and/or construction permits and/or procedures with respect to the properties occupied by us under certain service concession agreements and other arrangements may materially and adversely affect our ability to use such properties and in turn, our business, financial condition and results of operations.”

With regard to the projects for which our customers are required to obtain the relevant certificates and/or permits, and/or to complete the acceptance check on completion of construction pursuant to the terms of the relevant service concession agreements. We have actively communicated with the local governments or their designees and urged them to obtain the relevant certificates and/or permits and/or complete the acceptance check procedures on a timely basis. As a measure to mitigate our operational risk with respect to such projects, we have obtained confirmations from the relevant competent government authorities and/or indemnities from the local governments or their designees for all of the missing certificates and/or permits and/or incompleteness of the acceptance check procedures. Such confirmations include, among others, no-penalty confirmations and confirmations for the use of land. We will use our best endeavours to fulfil our contractual obligations under the relevant agreements and continue to work closely with our customers to obtain the relevant confirmations, certificates and/or permits. We will disclose the progress of rectification of such outstanding non-compliance instances in our interim or annual reports subsequent to the Listing.

Going forward, our Group intends to obtain appropriate land use rights certificates and/or planning and construction permits and/or complete the relevant procedures before the commencement of construction on any future projects. We will adopt the following measures to avoid any future recurrence of such non-compliance: (i) we will use our best endeavours to tighten the provisions in our BOT and TOT contracts such that our customers are obliged to provide (as opposed to assisting us to obtain) the land use rights certificates, which shall be registered under the names of the relevant project companies within our Group; (ii) the person-in-charge of the relevant project company shall procure that our customers perform such obligations under the relevant BOT and TOT contracts and the project companies shall commence the applications for the relevant certificates and/or permits in accordance with the actual requirements and progress of the relevant projects in a timely manner; and

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(iii) in any event, if relevant third-party project companies fail to obtain the land title certificates or other permits, we will ensure our customers will provide assistance to us so we can obtain confirmations from competent governmental authorities to the effect that such governmental authorities will not impose any penalty on the relevant project companies within our Group in respect of the lack of land title certificate and/or other permits and we may continue to use and occupy the land and/or carry out related construction work.

In addition, we have strengthened our internal control system through the following measures: (i) we have established our risk control centre in August 2013 to identify any non-compliance with relevant PRC laws and regulations during the new project contract negotiation stage and monitor and rectify outstanding non-compliance to mitigate our operational risks; (ii) we have engaged Commerce & Finance Law Offices, a qualified PRC law firm, as our compliance counsel in March 2014 to assist our Board to identify and manage the legal risks associated with our daily operations and advise us on relevant regulatory matters to ensure due compliance with applicable PRC laws, rules and regulations and (iii) in March 2014, our Directors and management attended an internal control training session conducted by our PRC legal advisers in respect of the compliance with applicable PRC laws and regulations.

After adopting the above internal control measures, our Directors are of view that we have adequate internal control systems in place for our property related compliance in the future, and therefore are able to comply with the internal control requirements under the Listing Rules. Based on (i) the due diligence enquiries conducted by the Joint Sponsors in relation to internal control systems; (ii) the Joint Sponsors' discussions with the internal control consultant; (iii) the review of the internal control related documents, information and confirmation provided by us; (iv) the remediation measures adopted by us; (v) the Joint Sponsors' discussions with our PRC legal adviser; and (vi) our Directors' views set out in this prospectus, the Joint Sponsors are satisfied that the enhanced internal controls for property related compliance are adequate.

Properties Used by Us For Free Without Having Title Ourselves

As at the Latest Practicable Date, we occupied four properties for free with a gross floor area of over 475 square meters, one of the holders of the properties are not able to provide its property ownership certificate. As a result, the relevant agreement of the occupied property may be deemed invalid and we may be forced to vacate the properties. Such properties are used as registered offices. We are of the view that most of these properties used as offices we occupy can, if necessary, be replaced by other comparable alternative premises without any material adverse effect on and are not crucial to our business or financial condition.

In addition, with respect to one parcel of construction land used in connection with the reclaimed water project of Jilin Kangda having a gross site area of 14,340 square meters, which we occupy for free, the holder of the land use rights certificate, Jilin Water, did not obtain the relevant construction work commencement permit or complete the acceptance check on completion of construction. However, we have received confirmation from Urban and Rural Construction Committee of Jilin City

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that no penalty will be imposed on Jilin Kangda. Our PRC legal adviser, Commerce & Finance Law Offices, is of the view that such government authority has the authority to give the relevant confirmation and the risk of such government authorities imposing any penalty on Jilin Kangda is remote.

Properties Leased by Us

As at the Latest Practicable Date, we leased two properties with a gross floor area of over 125 square meters. These leased properties are used as the registration offices of Jilin Kangda and Chongqing Zhongya. For our leased properties, the lessor failed to obtain relevant building ownership certificates or relevant consent from interested parties for us to use relevant buildings (designed for residential purposes) for business purposes. As a result, the relevant lease agreement for the leased property may be deemed invalid and we may be forced to vacate the properties. In addition, the relevant lease agreements were not registered with relevant PRC government authorities. Our PRC legal adviser has advised us that we may be required by the relevant PRC authorities to register the relevant lease agreements within a prescribed time limit. If we fail to do so, we may be subject to fines ranging from RMB1,000 to RMB10,000 for each non-registered lease. We are of the view that the lack of building ownership certificate or consent from interested parties is not crucial to, and will not have any material adverse impact on, our operations.

Due to the nature of our projects, our revenue is generally derived from the treatment of wastewater that was transported through pipe networks owned and built by the local governments on the land we occupy. Accordingly, if we are compelled to relocate our operations due to title defects and/or the lack of appropriate construction permits and procedures, we cannot guarantee that we can relocate to new land where appropriate pipe networks have been built. Thus, we are not able to estimate the time and cost associated with the relocation. Please see “Risk Factors — Risks Relating to Our Business — Certain defects in land use rights and the lack of relevant planning and/or construction permits and/or procedures with respect to the properties occupied by us under certain service concession agreements and other arrangements may materially and adversely affect our ability to use such properties, and in turn, our business, financial condition and results of operations”.

We believe our buildings which we have not obtained building ownership certificates or undertaken acceptance completion of construction procedures as required under local laws and regulations are generally considered safe for occupation based on construction quality control carried out by third-party construction supervisors. In addition, we are not aware of any difference of land cost or rental we would have to pay if the properties did not have any defective titles.

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EMPLOYEES

As at 31 December 2013, we had a total of 1,309 full-time employees in the PRC. The following table set forth a breakdown of our employees by department as at 31 December 2013:

	Number of Employees	Percentage of Total Employees (%)
Technical	205	15.7
Construction Management	81	6.2
Sales and Marketing	18	1.4
Operation	842	64.3
Finance and Accounting	101	7.7
Administrative and managerial	47	3.6
Others	15	1.2
Total	<u>1,309</u>	<u>100.0</u>

We generally recruit our employees through participating in job fairs for university graduates and through hiring other qualified personnel.

Compensation for our employees includes basic wages, bonuses and other staff benefits. We also provide social insurance and other benefits to our employees, such as basic pension insurance, basic medical insurance, work injury insurance, unemployment insurance, maternity insurance, housing and personal accident insurance pursuant to PRC labour law and relevant requirements of the national and local governments. Basic pension insurance, basic medical insurance, unemployment insurance and housing funds are contributed by us and the employees at a certain proportion in accordance with the relevant local requirements. The work injury insurance and maternity insurance are generally paid by us. We review the performance of our employees annually, the results of which are applied in his or her annual salary review and promotion appraisal. In order to attract and retain valuable employees and remain competitive in the labour market, we also conduct research on the remuneration packages that are offered by other companies in the same industry. For the years ended December 31, 2011, 2012, 2013, our employee benefit expenses were approximately RMB51.2 million, RMB69.0 million and RMB85.6 million, respectively.

Our labour union represents the interests of the employees and works closely with our management on labour-related issues. Since our inception, we have not experienced any significant turnover of staff or any disruption to our business operations due to labour disputes. Our Directors consider that we have maintained a good relationship with our employees. There were no complaints or claims from employees that materially and adversely affected our business operations during the Track Record Period.

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We provide both in-house and external training to our employees to enhance their knowledge of our corporate culture, technology, working skills and working attitude, including training to individual employee according to their respective job requirement. In addition, we encourage our personnel to continue developing their substantive skills through continuing education. For example, in March 2013, some of our employees participated in a three-day study visit to Israel, which included a one-day seminar regarding advanced water technologies and two days of visits to water technology companies in Tel Aviv. We also provide internal training to the new employees after they take the position or upon their entry to help them quickly adapt to work environment.

INSURANCE

As advised by our PRC legal counsel, Commerce & Finance Law Offices, we are not required under PRC law to maintain insurance for the construction and operation of the facilities for our projects. Under some concession agreements, we are required to maintain insurance in respect of the construction and operation of the facilities for our projects. 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. To minimise the risk of potential claims, 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. 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 insurance coverage may not adequately cover the risks related to our business and operations".

During the Track Record Period, we took out insurance policies according to the requirement of our various project agreements. As at the Latest Practicable Date, we had not received any complaints from our customers or penalties from the relevant authorities in relation to the insurance coverage for our projects. We believe that our insurance coverage has complied is in line with industry practice and complies with relevant laws and regulations.

ENVIRONMENT AND SAFETY

Environmental Regulations

We are subject to various PRC environmental laws and regulations, including the Environmental Protection Law of the PRC, the Law of the PRC on Appraising Environment Impact and the Law of the PRC on the Prevention and Control of Water Pollution. For further details of these requirements, please refer to the section headed "Regulations" of this prospectus.

For 2011, 2012 and 2013, our expenditures for environmental compliance were RMB1.3 million, RMB2.8 million and RMB5.7 million, respectively.

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Save as disclosed in “— Non-compliance” below, we have obtained all material environmental licences and permits for each of our BOT and TOT projects based on their respective stage of development and have complied in all material respects with the relevant environmental protection laws and regulations during the Track Record Period and up to the Latest Practicable Date.

Health and Safety Regulations

Pursuant relevant PRC laws and regulations, we are required to provide our employees a safe working environment, which includes, among other things, providing adequate protective clothing and gear, providing safety education and training and having dedicated safety management personnel. We also conduct regular inspection and maintenance checks on our equipment to ensure they meet the applicable national or industrial standards in respect of their design, manufacturing, installation and use.

We are in the process of formalising an accident recording and handling system. We believe our health and safety control measures are adequate and comply with applicable laws and regulations in all material respects. During the Track Record Period and up to the Latest Practicable Date, none of our employees had been involved in any major accident in the course of their employment and the relevant PRC authorities had not imposed any sanctions or penalty on us for incidents of non-compliance of any health and safety laws or regulations in China.

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INTERNAL CONTROL AND RISK MANAGEMENT

We currently have risk management policies and guidelines that were implemented in first quarter of 2014. The following table sets out some of the primary risks our business faces and our existing risk management measures:

<u>Risk Identified</u>	<u>Our Risk Management Measures and Procedures</u>
Failure to acquire required licences, approvals or authorisation	<ul style="list-style-type: none">• We have established a management system of licences, which specifically provides the management process of such licences and clarifies the responsibilities of obtaining and maintaining the licences by our Group, water management centre and each project company. Under such system, we have appointed our risk control centre to be in charge of applying for such licences and monitor the application process and annual inspection. Our risk control centre is led by two senior staff members each of whom has over ten years of project management experience and is familiar with the applicable PRC rules and regulations with regard to the necessary licenses and permits for our projects. These two senior members are supported by six other team members, who along with the relevant personnel at the project company level, apply for and/or follow up with the application processes and annual inspections for the relevant licenses and permits required for our operations. With respect to the licences we fail to obtain, our risk control centre will report the matter to our management.• We require each of our operation centres and project companies to collect and keep record of information regarding licences, approvals and authorisation for our Group during the entire process of the projects to ensure that we are able to follow up with relevant governmental authorities in time.• Our audit committee will assist our Board in providing an independent view of the effectiveness of, among other things, risk management systems. For more details, please refer to the section headed “Directors and Senior Management — Board Committees — Audit Committee”.• Where necessary, we will engage external legal adviser to provide assistance on legal and compliance matters when necessary.

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There are various other risks to our business and industry. For further details, please refer to the section headed “Risk Factors” in this prospectus.

In preparation for the Listing, we engaged an independent internal control consultant (the “Internal Control Consultant”) to perform an overall assessment on certain of our procedures and internal controls, and in particular to review the internal controls to be established by us to prevent future breach and enhance on-going compliance with respect to the historical noncompliance incidents as disclosed in this section and elsewhere in this prospectus. During the internal control review, the Internal Control Consultant has provided some recommendations for our management’s consideration to enhance and rectify those deficiencies identified in our internal control system, which include certain remedial measures in respect of the historical non-compliance as disclosed in this section. We have implemented such remedial measures in our policies and procedures, which has been confirmed by the Internal Control Consultant, who has reviewed the remediation status of the identified internal control deficiencies of the selected entities of our Group by reviewing the revised policies and procedures. The internal control review was conducted based on information we provided.

CORPORATE GOVERNANCE

Our Company recognises the importance of good corporate governance in management and internal control procedures and will adopt the following measures to safeguard the interests of our Shareholders:

- (a) our Articles provide that, except in certain limited circumstances, a Director shall not vote on any resolution approving any contract or arrangement or any other proposal in which such Director or any of his associates have a material interest, nor shall such Directors be counted in the quorum present at the meeting. As such, our Controlling Shareholders shall not vote or be counted in the quorum in respect of any proposals involving the Controlling Shareholders or any of their affiliates;
- (b) we are committed to the principle that our Board should include a balanced composition of executive and independent non-executive Director. We believe our independent non-executive Directors are of sufficient calibre, are free of any business or other relationship which could interfere in any material manner with the exercise of their independent judgement and will be able to provide an impartial, external opinion to protect the interest of our public Shareholders;
- (c) we intend to ensure that any transaction that is proposed between us and connected persons will comply with chapter 14A of the Listing Rules including, where applicable, the announcement, reporting and independent shareholders’ approval requirements of those rules; and
- (d) in addition, if our independent non-executive Directors consider it necessary or desirable, they may also engage professional advisers at the cost of our Company to advise them on matters relating to any non-competition agreement or on any business opportunities which may be referred to us by our Controlling Shareholders.

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Compliance Adviser

Our Company has appointed TC Capital Asia Limited as our compliance adviser pursuant to Rule 3A.19 of the Listing Rules. Pursuant to Rule 3A.23 of the Listing Rules, the compliance adviser will advise our Company on the following matters:

- (a) the publication of any regulatory announcement, circular or financial report;
- (b) where a transaction, which might be notifiable or connected transaction, is contemplated, including share issues and share repurchases;
- (c) where our Company proposes to use the proceeds of the Global Offering in a manner different from that detailed in prospectus or where its 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 our Company regarding unusual movement in the price or trading volume of the shares of our Company.

The term of the appointment shall commence on the Listing Date and end on the date on which our Company distributes its annual report in respect of its financial results for the first full financial year commencing after the Listing Date. Such appointment may be subject to extension by mutual agreement.

LEGAL PROCEEDINGS

During the Track Record Period and as at 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 by or against us, that we believe, individually or in aggregate, would have a material adverse effect on our business, financial condition, or results of operations.

REGULATORY COMPLIANCE

Our operations are subject to various national and local laws and regulations. Please refer to “Regulations” in this prospectus for further details. In our compliance measures we aim to meet regulatory and industrial standards promulgated by relevant government authorities and industry associations. Except as otherwise disclosed in this prospectus, our PRC legal adviser, Commerce & Finance Law Offices have advised that we are in compliance with all applicable laws and regulations of the PRC in all material respects, and have obtained all necessary permits, licences and certificates required for our operations in all material respects.

NON-COMPLIANCE

Except as disclosed below, we complied with the law and regulations applicable to us in all material aspects during the Track Record Period and up to the Latest Practicable Date. The table below sets forth summaries of certain incidents of historical non-compliance with applicable law and regulations during the Track Record Period. Our Directors believe that these incidents of non-compliance, whether individually or collectively, will not have a material operational or financial impact on us.

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Responsible Party(ies)	Historical non-compliance	Reasons for the non-compliance	Legal consequences and potential maximum and other financial liabilities	Rectification actions taken and status	Internal control measures to prevent future breach and ensure ongoing compliance
(1) Beijing Caiyu, Anhui Chengjian Huashan Sewage, Ningguo Chengjian Sewage, Jilin Kangda, Jixi Chengjian Sewage, Harbin Kangda, Huadian Kangda	<p><i>Beijing Caiyu, Anhui Chengjian Huashan Sewage, Ningguo Chengjian Sewage (collectively, the "Relevant Companies A"):</i> During the Track Record Period and up to the Latest Practicable Date, the Relevant Companies A operated without (i) passing the environmental acceptance tests and/or (ii) a valid sewage discharge permit (the "Permit").</p>	<p><i>Relevant Companies A:</i> The relevant customers did not provide sufficient wastewater to be treated as specified in the relevant project agreement or the wastewater had not met the required specifications, thus leading to the inability of the Responsible Parties to conduct the environmental acceptance tests, which is a prerequisite of obtaining such Permit.</p>	<p>As advised by our PRC legal adviser, Commerce & Finance Law Offices: <i>Relevant Companies A:</i> Operating without passing the environmental acceptance test, the competent authorities may order us to suspend our operation and/or impose penalties of up to RMB100,000 per Relevant Company A.</p>		<p>We have established a management system of licences, which specifically provides the management process of such licences and clarifies the responsibilities of obtaining and maintaining the licences by our Group, Water Management Centre and each project company. Under such system, we have appointed staff to be in charge of applying for such licences and follow up with the application process and annual inspection. Our staff will promptly inform our management if we fail to obtain any licenses.</p> <p>We require each of our centres and project companies to collect and keep record of information regarding the licences, approvals and authorisation for our Group Company during the entire process of the projects to ensure that we are able to follow up with relevant governmental authorities in time.</p>

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Responsible Party(ies)	Historical non-compliance	Reasons for the non-compliance	Legal consequences and potential maximum and other financial liabilities	Rectification actions taken and status	Internal control measures to prevent future breach and ensure ongoing compliance
			<p><i>Beijing Caiyu:</i> In Beijing, discharging sewage water without a Permit or temporary Permit will lead to a fine of not more than RMB50,000.</p> <p><i>Anhui Chengjian Huashan Sewage, Ningguo Chengjian Sewage:</i> In Hual River region, including Anhui Province, if a party fails to obtain the Permit while it does not discharge the sewage exceeding the relevant quantity and quality standards, it may be subject to warning and a fine of not more than RMB5,000.</p>	<p><i>Beijing Caiyu:</i> According to a confirmation letter dated 20 January 2014, issued by Environmental Protection Bureau in Daxing District, Beijing, (i) Beijing Caiyu is allowed to operate according to current conditions without passing the relevant environmental acceptance tests, and (ii) had not been penalised by the environmental protection departments.</p> <p><i>Anhui Chengjian Huashan Sewage:</i> According to a confirmation letter dated 10 October 2013 issued by Environmental Protection Bureau in Chaohu municipality that Anhui Chengjian Huashan Sewage (i) is allowed to operate without passing the relevant environmental acceptance tests and prior to receiving the Permit and (ii) had not been penalised by the environmental protection departments.</p> <p><i>Ningguo Chengjian Sewage:</i> According to a confirmation letter dated 25 February 2014, issued by Environmental Protection Bureau in Ningguo municipality that Ningguo Chengjian Sewage (i) is allowed to operate without passing the relevant environmental acceptance tests and the Permit and (ii) will not be penalised by such environmental protection bureau.</p>	<p>We intend to engage Commerce & Finance Law Offices, a qualified PRC law firm, as our legal adviser to assist our Board to identify and manage the legal risks associated with our daily operations and advise us on relevant regulatory matters to ensure due compliance with PRC laws, rules and regulations applicable to our Group. Furthermore, Commerce & Finance Law Offices has conducted and will continue to hold internal control training sessions in respect of the compliance with applicable PRC laws and regulations for our Directors and management.</p>

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Responsible Party(ies)	Historical non-compliance	Reasons for the non-compliance	Legal consequences and potential maximum and other financial liabilities	Rectification actions taken and status	Internal control measures to prevent future breach and ensure ongoing compliance
			<p><i>Jilin Kangda:</i> (i) May be ordered to suspend its operation as a result of it operating without passing the relevant environmental acceptance tests and/or impose penalties of up to RMB100,000, and (ii) may be subject to warning and required to obtain the Permit within a prescribed period and may be subject to a fine of not more than RMB10,000. The potential maximum and other financial liabilities under such circumstance would be RMB130,000 calculated based on Jilin Kangda's average monthly revenue for the year ended 31 December 2013.</p> <p><i>Jixi Chengjian Sewage:</i> (i) May be ordered to suspend its operation as a result of it operating without passing the relevant environmental acceptance tests and/or impose penalties of up to RMB100,000, and (ii) if it fails to obtain the Permit while it does not discharge the sewage exceeding the relevant quantity and quality standards, may be subject to a warning and a fine of not more than RMB5,000. The potential maximum and other financial liabilities under such circumstance would be RMB384,750 calculated based on Jixi Chengjian Sewage's average monthly revenue for the year ended 31 December 2013.</p>	<p><i>Jilin Kangda:</i> In the process of applying for the conduct of environmental acceptance tests and will apply for sewage discharge permit upon the completion of environmental acceptance tests.</p> <p><i>Jixi Chengjian Sewage:</i> According to a confirmation letter dated 4 April 2014, issued by the Environmental Protection Bureau in Xuancheng, Jixi Chengjian Sewage is allowed to operate without the Permit.</p> <p>Each of the Relevant Companies A will apply to conduct the environmental acceptance tests and obtain the relevant Permit as soon as its customers provided sufficient wastewater to be treated.</p>	

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Responsible Party(ies)	Historical non-compliance	Reasons for the non-compliance	Legal consequences and potential maximum and other financial liabilities	Rectification actions taken and status	Internal control measures to prevent future breach and ensure ongoing compliance
	<p><i>Harbin Kangda and Huadian Kangda (collectively, the "Relevant Companies B")</i>: During the Track Record Period and up to the Latest Practicable Date, the Relevant Companies B operated without valid Permit.</p>	<p><i>Harbin Kangda</i>: The relevant authorities in Harbin did not issue such Permits in the past and are formulating new policies regarding the issue of the Permits.</p> <p><i>Huadian Kangda</i>: We just completed the asset acquisition of Huadian Kangda and we have applied for the Permit.</p>	<p><i>Relevant Companies B</i>: There is no specific provision of legal consequences or potential maximum or other financial liabilities if a party fails to obtain a Permit for discharging sewage water in Harbin and Huadian.</p> <p>As at the Latest Practicable Date, none of the Responsible Parties have received any fine or penalty in respect of these non-compliance incidents.</p>	<p><i>Harbin Kangda</i>: a formal application for the Permit was submitted to Heilongjiang Provincial Environmental Protection Bureau in 2013. According to a confirmation letter dated 5 March 2013, effective till 30 June 2014, issued by the Environmental Protection Bureau in Heilongjiang Province, the Permit will be issued later primarily as a result of formulation of new policies for the issue of the Permit. The Company will continue to monitor any changes in the policies and liaise with the relevant authorities.</p> <p><i>Huadian Kangda</i>: according to a confirmation letter dated 7 March 2014, issued by Environmental Protection Bureau in Huadian City that Huadian Kangda is allowed to operate without the Permit.</p>	

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Responsible Party(ies)	Historical non-compliance	Reasons for the non-compliance	Legal consequences and potential maximum and other financial liabilities	Rectification actions taken and status	Internal control measures to prevent future breach and ensure ongoing compliance
				<p>As advised by our PRC legal adviser, Commerce & Finance Law Offices, the abovementioned environmental authorities are competent authorities to issue the respective confirmation letter and based on the above mentioned confirmation letters, the risk of any fine or penalty on the relevant Responsible Parties (as to Jixi Chengjian Sewage, the risk of it receiving any fine or penalty with respect to operating without the Permit) is low.</p> <p>Pursuant to the Deed of Indemnity, our Controlling Shareholders agreed to indemnify our Company, the Relevant Companies A and the Relevant Companies B, in respect of all potential claims, costs, expenses and losses incurred due to these non-compliance incidents.</p>	

BUSINESS

Responsible Party(ies)	Historical non-compliance	Reasons for the non-compliance	Legal consequences and potential maximum and other financial liabilities	Rectification actions taken and status	Internal control measures to prevent future breach and ensure ongoing compliance
(2) The management team of Anhui Chengjian Huashan Sewage in 2011	<p>In 2011, Anhui Chengjian Huashan Sewage (i) failed to file tax return with the relevant national tax authority on time, (ii) had outstanding real estate tax and urban land use tax.</p> <p>This non-compliance incident occurred prior to our Group's acquisition of Beijing Chang Sheng, which held 100% equity interest in Anhui Chengjian Huashan Sewage, in May 2013.</p>	<p>The failure to file tax return on time and to fully fulfill our tax payments was mainly due to administrative oversight.</p>	<p>As advised by our PRC legal adviser, Commerce & Finance Law Offices, Huashan Kangda may be subject to a fine of no more than RMB10,000. In respect of Anhui Chengjian Huashan Sewage for its failure to file its tax return in time not making its tax payment in full, it is subject to a penalty of no more than five times of the outstanding tax amount.</p>	<p>We have filed tax return and paid RMB238,312.2 to settle all outstanding real estate tax and urban land use tax and a late payment charge of RMB62,322.35 on 27 September 2013.</p>	<p>We have conducted trainings for the relevant personnel. We also have written policies in place with regard to the frequency and level of supervision from our headquarters.</p> <p>We intend to engage Commerce & Finance Law Offices, a qualified PRC law firm, as our legal adviser to assist our Board to identify and manage the legal risks associated with our daily operations and advise us on relevant regulatory matters to ensure due compliance with PRC laws, rules and regulations applicable to our Group. Furthermore, Commerce & Finance Law Offices has conducted and will continue to hold internal control training sessions in respect of the compliance with applicable PRC laws and regulations for our Directors and management.</p>

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Responsible Party(ies)	Historical non-compliance	Reasons for the non-compliance	Legal consequences and potential maximum and other financial liabilities	Rectification actions taken and status	Internal control measures to prevent future breach and ensure ongoing compliance
(3) Chongqing Kangda and its related subsidiaries	<p>During the Track Record Period, we made advances to certain related party companies, which are ultimately beneficially controlled by Mr. Zhao Juanxian, our Controlling Shareholder, in contravention of the Lending General Provisions (貸款通則). These advances were all non-trade in nature, unsecured, with a fixed maturity of one year, with a pre-agreed floating interest rate ranging from 6.39% to 7.22%. As at 31 December 2011, 2012 and 2013, the outstanding balances of such advances to those related party companies were RMB138.3 million, nil and nil, respectively, and the interest generated from such advances amounted to RMB7.5 million, nil and nil, respectively.</p>	<p>The advances were made to satisfy the temporary cash requirements of these related parties to support their business development.</p>	<p>According to the Lending General Provisions (貸款通則), a company that engaged in lending activity without authorisation may be subject to a fine in an amount equal to one to five times the interest generated from such lending activity. However, as advised by our PRC legal adviser, Commerce & Finance Law Offices, the risk of any fine on Chongqing Kangda and its subsidiaries is low because no penalties shall be imposed on an entity for its illegal acts which have not been discovered within two years of its commission unless otherwise provided by law and such statutory limitation for such incident is two years and has expired. As such, we did not make any provisions in our accounts in respect of such non-compliance incidents.</p>	<p>All amounts due from related parties, including total of RMB145.8 million comprising principal and interest accrued were fully repaid by the related party in January 2012.</p>	<p>We (i) have stopped providing loans to any entities since January 2012, (ii) will not engage in any financing activities in the future without authorisation from the PBOC, and (iii) will not engage in any such loan arrangement after the Listing.</p> <p>We intend to engage Commerce & Finance Law Offices, a qualified PRC law firm, as our legal adviser to assist our Board to identify and manage the legal risks associated with our daily operations and advise us on relevant regulatory matters to ensure due compliance with PRC laws, rules and regulations applicable to our Group. Furthermore, Commerce and Finance Law Offices has conducted and will continue to hold internal control training sessions in respect of the compliance with applicable PRC laws and regulations for our Directors and management.</p>

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Responsible Party(ies)	Historical non-compliance	Reasons for the non-compliance	Legal consequences and potential maximum and other financial liabilities	Rectification actions taken and status	Internal control measures to prevent future breach and ensure ongoing compliance
(4) Guangrao Kangda	In 2010, in two occasions, the quality of our treated wastewater did not meet the relevant quality standards, and we received two fines from Dongying Environmental Protection Bureau.	The main reason for such non-compliance is because incoming wastewater to be treated was materially different from the wastewater quality pre-determined in the service concession agreement.	We were fined for a total of RMB150,000.	As soon as we received the notice for the fine, we began to communicate with Dongying Environmental Protection Bureau to determine the reason the quality of our treated wastewater did not meet the relevant quality standard. Through this process we determined the cause of the issue. We later upgraded and expanded our Guangrao Kangda facility. The treated wastewater of our Guangrao Kangda facility meets the relevant standards since the upgrade and expansion.	We intend to engage Commerce & Finance Law Offices, a qualified PRC law firm, as our legal adviser to assist our Board to identify and manage the legal risks associated with our daily operations and advise us on relevant regulatory matters to ensure due compliance with PRC laws, rules and regulations applicable to our Group. Furthermore, Commerce & Finance Law Offices has conducted and will continue to hold internal control training sessions in respect of the compliance with applicable PRC laws and regulations and relevant contractual terms for our Directors and management.
					We also maintain our own water quality monitoring system and regularly prepare reports that track the quality of the incoming wastewater. We have also implemented a reporting system whereby relevant personnel are responsible to communicate with relevant environmental authorities when the quality of incoming wastewater to be treated is materially different from the wastewater quality pre-determined in the service concession agreement. In addition, the quality of the water before treatment is subject to monitoring on a 24-hour basis by the local environmental authorities or by a third party monitoring institutes engaged by the authorities.

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On 25 March 2013, we engaged our internal control consultant to conduct a comprehensive review of our internal control system, including, among other things, controls and procedures over regulatory compliance, sales and marketing management, procurement management, financial management control, asset management, construction project and operation management and human resources and payroll. With respect to the non-compliance incidents identified above, our internal control consultant has made recommendations to prevent further breaches and ensuring on-going compliance. A follow-up review was conducted by our internal control consultant from 10 February 2014 to 21 February 2014 to review our company's newly adopted policies and to perform random testing to verify the effectiveness of our internal control. All recommendations made by our internal control consultant have been strictly implemented by us as at the Latest Practicable Date. Accordingly, no provision was made by our management with respect to these non-compliance incidents during the Track Record Period.

After taking into account the nature and reasons for the historical non-compliance incidents, the confirmation of the relevant competent government authorities, the above rectification measures taken by our Group, our business nature and operation scale, our Directors are of the view, and Joint Sponsors agree, that the non-compliance incidents do not have any material impact on the suitability of our Directors under Rules 3.08, 3.09 and 8.15 of the Listing Rules and our suitability for listing under Rule 8.04 of the Listing Rules. On the basis of the preventive measures mentioned above, our Directors are of the view that we have adequate internal control procedures in place for purpose of the Listing Rules.

In addition, after making enquiries of the management of our Company, reviewing of the enhanced internal control procedures of our Group and discussing with our Group's internal control consultant regarding our Group's internal control system, the Joint Sponsors, who are not experts in internal control, are not aware of any reasons to disagree with our Director's view that our Group's enhanced internal control measures are adequate and effective under the Listing Rules.

SUBSTANTIAL SHAREHOLDERS

So far as our Directors are aware, each of the following persons will, immediately following completion of the Capitalisation Issue and the Global Offering (without taking into account the Shares which may be issued upon the exercise of the Over-allotment Option or the Shares which may be issued upon the exercise of any options which may be granted under the Share Option Scheme, and assuming the Exchangeable Bond are exchanged based on the low-end of the Offer Price range), have an interest or short position in Shares or underlying Shares which would be required to be disclosed to our Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, directly or indirectly, be interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of our Group:

Name of shareholder	Capacity/nature of interest	As at the Latest Practicable Date		Upon Listing	
		Number and class of securities ⁽¹⁾	Approximate percentage of shareholding	Number and class of securities ⁽¹⁾	Approximate percentage of shareholding
Mr. Zhao Sizhen ⁽²⁾	Interest in controlled corporation	10,000 Shares (L)	100%	932,890,805 Shares (L)	46.6%
Mr. Zhao Juanxian ⁽³⁾	Person acting in concert	10,000 Shares (L)	100%	932,890,805 Shares (L)	46.6%
Kangda Holdings ⁽⁴⁾	Beneficial owner	10,000 Shares (L)	100%	932,890,805 Shares (L)	46.6%
Investor ⁽⁵⁾	Beneficial owner	nil	nil	567,109,195 Shares (L)	28.4%
The Baring Asia Private Equity Fund V, L.P. ⁽⁵⁾	Interest in controlled corporation	nil	nil	567,109,195 Shares (L)	28.4%
Baring Private Equity Asia GP V, L.P. ⁽⁵⁾	Interest in controlled corporation	nil	nil	567,109,195 Shares (L)	28.4%
Baring Private Equity Asia GP V Limited ⁽⁵⁾	Interest in controlled corporation	nil	nil	567,109,195 Shares (L)	28.4%
Jean Eric Salata ⁽⁵⁾	Interest in controlled corporation	nil	nil	567,109,195 Shares (L)	28.4%

Notes:

- (1) The letter “L” denotes the person’s long position in the Shares.
- (2) Under the SFO, Mr. Zhao Sizhen is deemed to be interested in all the Shares held by Kangda Holdings by reason of his 100% interest in the share capital of Kangda Holdings.
- (3) By virtue of Mr. Zhao Juanxian acting in concert with Mr. Zhao Sizhen, Mr. Zhao Juanxian is deemed to be interested in Mr. Zhao Sizhen’s interests in our Company.
- (4) Under the SFO, Kangda Holdings is wholly-owned and controlled by Mr. Zhao Sizhen and Mr. Zhao Sizhen is therefore deemed to be interested in the Shares held by Kangda Holdings.
- (5) The Investor is held as to approximately 99.35% by The Baring Asia Private Equity Fund V, L.P., an Independent Third Party. Baring Private Equity Asia GP V, L.P., an Independent Third Party, is the general partner of The Baring Asia Private Equity Fund V, L.P. Jean Eric Salata is the sole shareholder of Baring Private Equity Asia GP V Limited, the general partner of Baring Private Equity Asia GP V, L.P. Each of The Baring Asia Private Equity Fund V, L.P., Baring Private Equity Asia GP V, L.P., Baring Private Equity Asia GP V Limited and Jean Eric Salata is an Independent Third Party, and is deemed to be interested in 567,109,195 Shares held by the Investor immediately following the completion of Capitalisation Issue, the Global Offering and the exchange of the Exchangeable Bond by the Investor in full (assuming the Over-allotment Option and any options granted under the Share Option Scheme are not exercised, and the Exchangeable Bond are exchanged based on the low-end of the Offer Price range). Jean Eric Salata disclaims beneficial ownership of such Shares, other than to the extent of his economic interest in such entities.

SUBSTANTIAL SHAREHOLDERS

So far as our Directors are aware, each of the following persons will, immediately following completion of the Capitalisation Issue and the Global Offering (without taking into account the Shares which may be issued upon the exercise of the Over-allotment Option or the Shares which may be issued upon the exercise of any options which may be granted under the Share Option Scheme, and assuming the Exchangeable Bond are exchanged based on the high-end of the Offer Price range), have an interest or short position in Shares or underlying Shares which would be required to be disclosed to our Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, directly or indirectly, be interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of our Group:

Name of shareholder	Capacity/nature of interest	As at the Latest Practicable Date		Upon Listing	
		Number and class of securities ⁽¹⁾	Approximate percentage of shareholding	Number and class of securities ⁽¹⁾	Approximate percentage of shareholding
Mr. Zhao Sizhen ⁽²⁾	Interest in controlled corporation	10,000 Shares (L)	100%	1,094,922,004 Shares (L)	54.7%
Mr. Zhao Juanxian ⁽³⁾	Person acting in concert	10,000 Shares (L)	100%	1,094,922,004 Shares (L)	54.7%
Kangda Holdings ⁽⁴⁾	Beneficial owner	10,000 Shares (L)	100%	1,094,922,004 Shares (L)	54.7%
Investor ⁽⁵⁾	Beneficial owner	nil	nil	405,077,996 Shares (L)	20.3%
The Baring Asia Private Equity Fund V, L.P. ⁽⁵⁾	Interest in controlled corporation	nil	nil	405,077,996 Shares (L)	20.3%
Baring Private Equity Asia GP V, L.P. ⁽⁵⁾	Interest in controlled corporation	nil	nil	405,077,996 Shares (L)	20.3%
Baring Private Equity Asia GP V Limited ⁽⁵⁾	Interest in controlled corporation	nil	nil	405,077,996 Shares (L)	20.3%
Jean Eric Salata ⁽⁵⁾	Interest in controlled corporation	nil	nil	405,077,996 Shares (L)	20.3%

Notes:

- (1) The letter “L” denotes the person’s long position in the Shares.
- (2) Under the SFO, Mr. Zhao Sizhen is deemed to be interested in all the Shares held by Kangda Holdings by reason of his 100% interest in the share capital of Kangda Holdings.
- (3) By virtue of Mr. Zhao Juanxian acting in concert with Mr. Zhao Sizhen, Mr. Zhao Juanxian is deemed to be interested in Mr. Zhao Sizhen’s interests in our Company.
- (4) Under the SFO, Kangda Holdings is wholly-owned and controlled by Mr. Zhao Sizhen and Mr. Zhao Sizhen is therefore deemed to be interested in the Shares held by Kangda Holdings.
- (5) The Investor is held as to approximately 99.35% by The Baring Asia Private Equity Fund V, L.P., an Independent Third Party. Baring Private Equity Asia GP V, L.P., an Independent Third Party, is the general partner of The Baring Asia Private Equity Fund V, L.P. Jean Eric Salata is the sole shareholder of Baring Private Equity Asia GP V Limited, the general partner of Baring Private Equity Asia GP V, L.P. Each of The Baring Asia Private Equity Fund V, L.P., Baring Private Equity Asia GP V, L.P., Baring Private Equity Asia GP V Limited and Jean Eric Salata is an Independent Third Party, and is deemed to be interested in 405,077,996 Shares held by the Investor immediately following the completion of Capitalisation Issue, the Global Offering and the exchange of the Exchangeable Bond by the Investor in full (assuming the Over-allotment Option and any options granted under the Share Option Scheme are not exercised, and the Exchangeable Bond are exchanged based on the high-end of the Offer Price range). Jean Eric Salata disclaims beneficial ownership of such Shares, other than to the extent of his economic interest in such entities.

SUBSTANTIAL SHAREHOLDERS

Save as disclosed herein, our Directors are not aware of any person who will, immediately following the Capitalisation Issue and the Global Offering (without taking into account the Shares which may be issued upon the exercise of the Over-allotment Option or the Shares which may be issued upon the exercise of any options granted under the Share Option Scheme and the exchange of the Exchangeable Bond), have an interest or short position in Shares or underlying Shares which would be required to be disclosed to our Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, directly or indirectly, be interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of our Company.

RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

CONTROLLING SHAREHOLDERS

Immediately after completion of the Capitalisation Issue and the Global Offering, the Controlling Shareholders will together control the exercise of voting rights of more than 30% of the Shares eligible to vote in the general meeting of our Company (assuming the Over-allotment Option is not exercised and without taking into account any Shares which may be issued upon exercise of options granted under the Share Option Scheme). Save as disclosed in this prospectus and except for their respective interests in our Company and its subsidiaries, the Controlling Shareholders had no interest in any other companies as at the Latest Practicable Date, which (i) held interests in our business during the Track Record Period and ceased to hold such interests after the Corporate Reorganisation; or (ii) may, directly or indirectly, compete with our Group's business.

Our Controlling Shareholders, Mr. Zhao Juanxian and Mr. Zhao Sizhen, the son of Mr. Zhao Juanxian, are parties acting in concert since October 2008.

Information on Other Companies Owned by Our Controlling Shareholders

We are currently engaged in the investment and operation of municipal wastewater treatment services. Mr. Zhao Juanxian, a Controlling Shareholder, currently hold interests in certain companies (the "Non-Group Companies"), which operate certain businesses outside of our Group (the "Non-Group Business"). Apart from our Group, Mr. Zhao Sizhen does not have any interest in any other companies.

As at the Latest Practicable Date, Mr. Zhao Juanxian's equity interests in the Non-Group Companies are summarised below:

No.	Company Name ⁽¹⁾	Percentage of interest directly or indirectly held by Mr. Zhao Juanxian	Principal business activities
1.	Chongqing Kangte	100%	General investment in environmental protection industry with own funds (other than wastewater treatment)
2.	Chongqing Dahuang	40%	Manufacture and sales of the wastewater treatment devices for ships
3.	Kangyan Construction	100%	No actual business
4.	Kangda Jincheng	100%	No actual business
5.	Chongqing Kangda Investment	100%	General investment with its own funds
6.	Kangda Zhenglong	100%	Project investment and management

RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

No.	Company Name ⁽¹⁾	Percentage of interest directly or indirectly held by Mr. Zhao Junxian	Principal business activities
7.	Kangda Culture	100%	Purchase and sales of stones, root carving, calligraphy and painting, landscaping
8.	Lanou Property	100%	Real estate development and operation management
9.	Kangheng Property	100%	Real estate development and operation management
10.	Huludao Jincheng	100%	Construction operation and management of solid waste treatment plants
11.	Gaomi Kangrui	100%	No actual business

Note:

- (1) For further details of the Non-Group Companies, please refer to the section headed “History and Corporate Structure — Corporate Reorganisation”.

As indicated above, each Non-Group Business is separate and different from our Group’s principal business as they utilise different facilities, technologies and expertise and/or fall into different business categories. Therefore, as confirmed by our Controlling Shareholders, the Non-Group Business will not, directly or indirectly, compete with our Group’s business. The Non-Group Business operated by the Non-Group Companies has not been included in our Group, and our Controlling Shareholders confirmed that they have no current intention to inject any of the Non-Group Business into our Group.

NON-COMPETITION UNDERTAKING OF THE CONTROLLING SHAREHOLDERS

Our Controlling Shareholders has entered into the Deed of Non-competition in favour of our Company, pursuant to which our Controlling Shareholders have jointly and severally and irrevocably undertaken with our Company (for itself and for the benefit of its subsidiaries) that it or he would not, and would procure that its or his associates (except any members of our Group) would not, during the restricted period set out below, directly or indirectly, either on its or his own account or in conjunction with or on behalf of any person, firm or company, among other things, carry on, participate or be interested or engaged in or hold (in each case whether as a shareholder, partner, agent, employee or otherwise) any business which is or may be in competition with the business of any member of our Group from time to time (the “**Restricted Business**”).

The Non-competition undertaking above does not apply to:

- (a) any opportunity to invest, participate, be engaged in and/or operate with a third party any Restricted Business which has first been offered or made available to our Company, and at

RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

the request of our Company, the offer should include: (i) terms of offer between our Company and such third party, or (ii) terms for our Company to engage in the Restricted Business with them and/or their associates, and our Company, after review and approval by our independent non-executive Directors, has declined such opportunity to invest, participate, be engaged in or operate the Restricted Business with such third party or together with them and/or their associates, provided that the principal terms by which our Controlling Shareholder(s) (or his/its relevant associate(s)) subsequently invests, participates, engages in or operates the Restricted Business are not more favourable than those disclosed to our Company; or

- (b) any interests in the shares of any member of our Group; or
- (c) interests in the shares of a company other than our Group which shares are listed on a recognised stock exchange provided that:
 - (i) any Restricted Business conducted or engaged in by such company (and assets relating thereto) accounts for less than 10% of that company's consolidated turnover or consolidated assets, as shown in that company's latest audited accounts; or
 - (ii) the total number of the shares held by our Controlling Shareholders and/or its/his respective associates in aggregate does not exceed 5% of the issued shares of that class of that company and such Controlling Shareholders and/or its/his respective associates are not entitled to appoint a majority of the directors of that company and at any time there should exist at least another shareholder of that company whose shareholdings in that company should be more than the total number of shares held by our Controlling Shareholders and its/his respective associates in aggregate; or
 - (iii) our Controlling Shareholders and/or their respective associates do not have the control over the board of such company.

The "restricted period" stated in the Deed of Non-competition refers to the period during which (i) the Shares of our Company remain listed on the Stock Exchange; (ii) in relation to each Controlling Shareholder, the relevant Controlling Shareholder or any of its/his associate still holds directly or indirectly an equity interest in our Company; and (iii) our Controlling Shareholders and/or its/his respective associates jointly or severally are entitled to exercise or control the exercise of not less than 30% in aggregate of the voting power at general meetings of our Company.

INDEPENDENCE FROM THE CONTROLLING SHAREHOLDERS

Having considered the matters described above and the following factors, we believe that our Group is capable of carrying on its business independently from our Controlling Shareholders and its/his respective associates after completion of the Global Offering:

Management independence

Our Board comprises five executive Directors, one non-executive Director and three independent non-executive Directors. Mr. Zhao Juanxian, a Controlling Shareholder, is one of our executive Directors and the chairman of the Board.

RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

Save as disclosed above, no other Controlling Shareholder holds any directorship in our Company. Each of our Directors is aware of his fiduciary duties as a Director of our Company which requires, among other things, that he acts for the benefit and in the best interests of our Company and does not allow any conflict between his duties as a Director and his personal interest. In the event that there is a potential conflict of interest arising out of any transaction to be entered into between our Group and our Directors or their respective associates, the interested Director(s) shall abstain from voting at the relevant board meetings of our Company in respect of such transactions and shall not be counted in the quorum. In addition, we have an independent senior management team to carry out the business decisions of our Group independently.

Having considered the above factors, our Directors are satisfied that they are able to perform their roles in our Company independently, and our Directors are of the view that we are capable of managing our business independently from our Controlling Shareholders following the completion of the Global Offering.

Operational independence

We have also established a set of internal control procedures to facilitate the effective operation of our business.

We believe that we are capable of carrying on our business independently of our Controlling Shareholders and its/his respective associates. Our Directors confirmed that our Group has been operating independently from our Controlling Shareholders and their associates and will continue to do so after the Listing.

Financial independence

Our Group has an independent financial system and makes financial decisions according to our Group's own business needs. Promptly after the Listing, we plan to use part of the proceeds from the Global Offering of approximately HK\$220.8 million to repay the existing short-term bank borrowings provided by China Merchants Bank to our Group. The guarantee provided by our Controlling Shareholders will be terminated simultaneously after the repayment of such loans. For further details, please refer to the section headed "Future Plans and Use of Proceeds" of this prospectus. Save as mentioned above, our source of funding was independent from our Controlling Shareholders and none of our Controlling Shareholders or their respective associates, financed our operations during the Track Record Period. Our Group's accounting and finance functions are independent of our Controlling Shareholders. Our Directors confirm that our Group does not intend to obtain any further borrowing from any of our Controlling Shareholders. Therefore, there is no financial dependence on our Controlling Shareholders.

RELATIONSHIP WITH CONTROLLING SHAREHOLDERS

Confirmation Given by Other Directors

Each Director confirms that he or she does not have any competing business with Our Group.

CORPORATE GOVERNANCE MEASURES

Our Company will adopt the following measures to manage the conflict of interests arising from the competing business and to safeguard the interests of our Shareholders:

- (a) our independent non-executive Directors will review, on an annual basis, the compliance with the undertaking given by our Controlling Shareholders under the Deed of Non-competition;
- (b) our Controlling Shareholders undertake to provide all information requested by our Company which is necessary for the annual review by our independent non-executive Directors and the enforcement of the Deed of Non-competition;
- (c) our Company will disclose decisions on matters reviewed by our independent non-executive Directors relating to compliance and enforcement of the non-compete undertaking of our Controlling Shareholders under the Deed of Non-competition in the annual reports of our Company; and
- (d) our Controlling Shareholders will make an annual declaration on compliance with their undertaking under the Deed of Non-competition in the annual report of our Company.

DIRECTORS AND SENIOR MANAGEMENT

DIRECTORS

Name	Age	Position in our Company/Group	Date of appointment as a Director	Date of joining our Group	Responsibilities in our Group	Relationship with other Directors and senior management
Mr. Zhao Juanxian (alias, Zhao Junxian) (趙雋賢)	61	Executive Director, chairman of the Board and the chairman of the nomination committee	22 August 2011	July 1996	Strategic development and planning, overall operational management, market development and major decision making	None
Mr. Zhang Weizhong (張為眾)	62	Executive Director, the chief executive officer and member of the nomination committee	15 March 2013	September 2012	Overall management and operation	None
Ms. Liu Zhiwei (劉志偉)	49	Executive Director, vice president	15 May 2012	July 1996	Investor relationship and risk control matters	None
Mr. Gu Weiping (顧衛平)	59	Executive Director, vice president and member of the remuneration committee	15 May 2012	July 1996	The management of administrative and human resource affairs	None
Mr. Wang Litong (王立彤)	45	Executive Director and vice president	30 October 2013	January 2011	Marketing and business development	None
Mr. Zhuang Ping(莊平)	50	Non-executive Director	30 October 2013	October 2013	Provide professional opinion and judgment to our Board	None
Mr. Tsui Yiu Wa Alec (徐耀華)	64	Independent non-executive Director, the chairman of the audit committee and member of the nomination committee	30 October 2013	October 2013	Provide independent opinion and judgment to our Board	None

DIRECTORS AND SENIOR MANAGEMENT

Name	Age	Position in our Company/Group	Date of appointment as a Director	Date of joining our Group	Responsibilities in our Group	Relationship with other Directors and senior management
Mr. Yuan Shaoli (袁紹理)	59	Independent non-executive Director, the chairman of the remuneration committee, member of the audit committee and the nomination committee	30 October 2013	October 2013	Provide independent opinion and judgment to our Board	None
Mr. Song Qianwu (宋乾武)	60	Independent non-executive Director, member of the audit committee, remuneration committee and nomination committee	30 October 2013	October 2013	Provide independent opinion and judgment to our Board	None

SENIOR MANAGEMENT

Name	Age	Position in our Company/Group	Date of Appointment	Date of joining our Group	Responsibilities in our Group	Relationship with other Directors and senior management
Mr. Li Gang (李剛)	37	Chief financial officer	11 July 2012	July 2012	Finance, accounting and taxation affairs	None
Mr. Liang Zuping (梁祖平)	59	Head of the auditing department	28 July 2011	July 1996	Internal auditing and risk control matters	None

DIRECTORS

Our Board is responsible and has general powers for the management and operation of our business. Our Board currently consists of 9 Directors, including 5 executive Directors, 1 non-executive Director and 3 independent non-executive Directors.

DIRECTORS AND SENIOR MANAGEMENT

Executive Directors

Mr. Zhao Juanxian (alias, Zhao Junxian) (趙雋賢), aged 61, is the founder of our Group. He is our executive Director, and the chairman of the Board of our Company, responsible for strategic development and planning, overall operational management, market development and major decision making. He was appointed as a Director on 22 August 2011. He has acted as a director and the chief executive officer of Kangda Group since the beginning of the establishment of Kangda Group and ceased to be the chief executive officer of Kangda Group from September 2012. He has also served as a director of Jilin Kangda and Hebi Kangda since September 2011 and February 2012, respectively. He graduated from the political administration at elementary level* (黨政幹部基礎科專業) from Sichuan University* (四川大學) located in Chengdu City, Sichuan Province, and Sichuan Higher Vocational and Examination Committee* (四川省高等中專教育自學考試指導委員會) in June 1988, and attended a one-month education programme of Sichuan foreign-related business from Shenzhen University* (深圳大學) located in Shenzhen City, Guangdong Province, in July 1988. Mr. Zhao Juanxian has about 25 years of experience in the environmental protection and wastewater treatment industry and was awarded for several times for his valuable contribution to the development of environmental protection and his expertise in environmental protection technology by relevant environmental protection industry associations from 2004 to 2009. Mr. Zhao Juanxian was granted the title of Outstanding Environmental Technology Entrepreneurs by the Chinese Society for Environmental Sciences* (中國環境科學學會) in September 2004. He received the China Environmental Protection Industry Development Award granted by the China Association of Environmental Protection Industry* (中國環境保護產業協會) in January 2005. He was also granted the title of Outstanding Individual of Environmental Protection by the People's Government of Chongqing Municipal* (重慶市人民政府) in July 2006 and Outstanding Entrepreneur of China Environmental Protection Industry by China Association of Environmental Protection Industry* (中國環境保護產業協會) in October 2009.

Mr. Zhao Juanxian served as the vice president of the 3rd and 4th Session of Chongqing Municipal Environmental Protection Industry Association* (重慶市環境保護產業協會第三屆及第四屆理事會) in 2005 and 2012, respectively, and the vice president of the 3rd and 4th Session of China Association of Environmental Protection Industry* (中國環境保護產業協會第三屆及第四屆理事會) in 2005 and 2009, respectively.

Prior to joining our Group in 1996, his major work experiences in private companies and other organisations are set forth in the following table:

Company/Organisation	Principal (Business)		Position	Responsibilities
	Activities	Time		
Chongqing Environmental Protection Industrial Company Limited* (重慶環保工業公司)	Providing environmental protection engineering and consulting services	From March 1989 to September 1989	Manager	Operational management
		From September 1989 to February 1990	Vice general manager	Operational management and business development

DIRECTORS AND SENIOR MANAGEMENT

Company/Organisation	Principal (Business) Activities	Time	Position	Responsibilities
Chongqing Environmental Protection Engineering Design Institution* (重慶環境保護工程設計所)	Providing environmental protection project engineering design and consulting related services	From February 1990 to October 1992	Deputy head of institution	General management and business development
Chongqing Transportation Environmental Protection and Technology Company Limited* (重慶交通環保科技公司)	Providing environmental protection consulting services, promotion and sales of transportation environmental protection equipments	From October 1992 to November 1994	Manager	Overall operational management
Chongqing Kangte	General investment in environmental protection industry with own funds (other than wastewater treatment)	Since November 1994	Chairman of the board of directors and general manager	Strategic development and planning, overall management and operation and major decision making

As at the Latest Practicable Date, Mr. Zhao did not hold directorship in other listed companies in the past three years.

Mr. Zhang Weizhong (張為眾), aged 62, is our chief executive officer and an executive Director. He was appointed as the Director on 15 March 2013. He was appointed as the president of Kangda Group on 25 September 2012. He completed a nine-month training programme of financial accounting in Sichuan Institute of Finance and Economics* (四川財經學院, currently known as Southwestern University of Finance and Economics* (西南財經大學)) located in Chengdu City, Sichuan Province, from October 1980 to July 1981 and graduated from Sichuan Radio and TV University* (四川廣播電視大學) located in Chengdu City, Sichuan Province, with a college degree* (大學專科) in industrial accounting in July 1986. Mr. Zhang Weizhong has over 30 years of experience of management and has obtained the qualification of senior accountant in the PRC granted by the People's Government of Chongqing Municipal* (重慶市人民政府) in December 1988. He was granted the title of Outstanding Accountant by the People's Government of Chongqing Municipal* (重慶市人民政府) in November 1982, Outstanding Accountant by Shizhong District Government of Chongqing* (重慶市市中區人民政府) in December 1982 and Senior Accounting Worker by Sichuan Province Government* (四川省人民政府) in December 1986.

Mr. Zhang Weizhong has served as an executive director of the Painting Branch of China Chemical Accounting Association* (中國化工會計學會塗料分會) since November 1991 and an executive director of Hainan Association of Chief Accountant* (海南省總會計師協會) since December 2004. As at the Latest Practicable Date, Mr. Zhang still held directorships in China Huandao (Group) Limited Company* (中國寰島集團公司), Sea Master Finance Limited (海領財務公司) and Cheer Harvest Industries Limited (資合實業有限公司). In addition, as at the Latest Practicable Date,

DIRECTORS AND SENIOR MANAGEMENT

he was also the general manager and chairman of Huandao South Development Limited Company* (寰島南方實業發展有限公司), as well as the general manager and legal representative of Haikou Haidian Island Real Estate Development Limited Company* (海口海甸島房地產開發總公司). Even though Mr. Zhang held directorships and other management positions in other companies, Mr. Zhang has confirmed that his respective employments in other companies will not materially affect the discharge of his duties to our Company.

His past and current major work experiences in listed companies, private companies and other organisations are set forth in the following table:

Company/Organisation	Principal Business Activities	Time	Position	Responsibilities
Chongqing Xinhua Chemical Plant* (重慶市新華化工廠)	Producing chemical raw materials and pigments	From April 1984 to April 1993	Financial officer	Financial accounting and management
		From December 1990 to April 1993	Chief accountant	Financial management and analysis
China Huandao (Group) Limited Company* (中國寰島集團公司)	Development, construction of real estate, hotel and tourism	From August 1993 to March 1997	Vice accountant	Financial management and analysis
		From March 1997 to December 2004	Chief accountant	Financial management and analysis
		From October 1998 to October 2003	Vice president	Overall financial management and operational decision making
		Since April 2011	Director	Administrative management and operational decision making
Huandao South Development Limited Company* (寰島南方實業發展有限公司)	Development and management of real estate	Since June 2010	General manager and chairman	Overall operational management
Hainan Huandao Hotel Travel Investment Limited Company* (海南寰島酒店旅遊投資有限公司)	Development and management of hotel and tourism	From October 2007 to October 2012	General manager	Overall operational management

DIRECTORS AND SENIOR MANAGEMENT

Company/Organisation	Principal Business Activities	Time	Position	Responsibilities
Hainan Huandao Hotel Management Limited Company* (海南寰島酒店管理有限公司)	Management of hotel and tourism	From June 2010 to October 2013	Legal representative	Strategic and operational decision making
Huandao Properties Limited Company* (海南寰島置業有限公司)	Development of real estate	From June 2010 to October 2013	Legal representative	Strategic and operational decision making
Haikou Haidian Island Real Estate Development Limited Company* (海口海甸島房地產開發總公司)	Development of real estate	Since June 2010	General manager and legal representative	Strategic and operational decision making
Hainan Huandao Real Estate Trading Centre* (海南寰島房地產交易中心)	Development of real estate	From June 2010 to December 2012	General manager and legal representative	Overall operational management, strategic and operational decision making
Hainan Huandao Hotel Limited Company* (海南寰島大酒店有限公司)	Management of hotel and tourism	From September 1994 to December 2007	Director and chief accountant	Overall operational management, strategic and operational decision making
Beihai Fulihua Hotel* (北海富麗華大酒店)	Management of hotel and tourism	From August 1996 to March 2001	Director	Overall operational management, strategic and operational decision making
Hainan Huandao Industrial Limited Company* (海南寰島實業股份有限公司, currently known as Hainan Yatai Industrial Development Co., Ltd.* (海南亞太實業發展股份有限公司) (000691.SZ) ⁽¹⁾)	Development, construction of real estate, and management of hotel and tourism	From August 1996 to March 2001	Chief supervisor and director	Supervising operational management, activities, reviewing board materials, administrative management and operational decision making
Sea Master Finance Limited (海領財務公司)	Procurement of import goods and financial leasing	Since April 1998	Director	Administrative management and operational decision making
Cheer Harvest Industries Limited (資合實業有限公司)	Procurement of import goods	Since April 1998	Director	Administrative management and operational decision making

Note:

(1) A Company listed in Shenzhen Stock Exchange in the PRC.

DIRECTORS AND SENIOR MANAGEMENT

As at the Latest Practicable Date, Mr. Zhang did not hold directorship in other listed companies in the past three years.

Ms. Liu Zhiwei (劉志偉), aged 49, is our executive Director and was appointed as a Director on 15 May 2012. She joined our Group in 1996 and has served various positions, including chief accountant, chief officer of asset management department, deputy chief financial officer, audit director, executive director and vice president, and is currently responsible for the investor relationship and risk control matters of our Group. Ms. Liu has approximately 20 years of experience in the field of accounting. She obtained the qualification of senior accountant in the PRC granted by the People's Government of Chongqing Municipal* (重慶市人民政府) in November 2000.

Prior to joining our Group, her previous major work experience in private company is set forth in the following table:

Company/Organisation	Principal Business Activities	Time	Position	Responsibilities
Chongqing Kangte	General investment in environmental protection industry with own funds (other than wastewater treatment)	From November 1994 to July 1996	Financial manager	Overall and daily management of financial accounting matters and tax declaration

As at the Latest Practicable Date, Ms. Liu did not hold directorship in other listed companies in the past three years.

Mr. Gu Weiping (顧衛平), aged 59, is our executive Director and was appointed as a Director on 15 May 2012. He joined our Group in 1996 and has served various positions, including general manager assistant, vice president and deputy chairman. He is currently responsible for the management of administrative and human resource affairs of our Group. He has also served as a director of Hebi Kangda and Dongying Kangda since February 2012 and November 2012, respectively. He completed the training course on administration and management for two years and graduated in political management and administration at elementary level* (黨政管理幹部基礎專修科專業) from Sichuan Radio and TV University* (四川廣播電視大學) located in Chongqing Municipal, in July 1986. He obtained the qualification of environmental engineer in the PRC granted by the People's Government of Chongqing Municipal* (重慶市人民政府) in September 1993. Mr. Gu Weiping has over 35 years of experience in the environmental protection industry. The research project he participated, namely the Research on the National Environmental Monitoring Standardisation of Analytical Methods* (全國環境監測分析方法標準化研究), won the Second Prize of Environmental Protection Science and Technology Progress Award* (環境保護科學技術進步二等獎) granted by the National Environmental Protection Bureau* (國家環境保護局) in October 1987. He was awarded by the People's Government of Chongqing Municipal* (重慶市人民政府) for his outstanding contribution to the development of engineering technology and projects on wastewater treatment in 1998 and 2011.

DIRECTORS AND SENIOR MANAGEMENT

Prior to joining our Group, his major work experiences in government organisations, private companies and other organisations are set forth in the following table:

Company/Organisation	Principal (Business) Activities	Time	Position	Responsibilities
Chongqing Municipal Environmental Protection Bureau* (重慶市環境保護局)	Environmental protection monitoring in Chongqing	From April 1991 to October 1992	Principal staff* (主任科員)	Environmental monitoring
Chongqing Environmental Protection Engineering Design Institute* (重慶環境保護工程設計所)	Providing environmental protection project engineering design and consulting related services	From January 1992 to November 1992	Assistant to the head of institute	Assisting the head of institute for daily management
Chongqing Kangte	General investment in environmental protection industry with own funds (other than wastewater treatment)	From November 1994 to July 1996	General manager assistant	Assisting the general manager for daily management

As at the Latest Practicable Date, Mr. Gu did not hold directorship in other listed companies in the past three years.

Mr. Wang Litong (王立彤), aged 45, is our executive Director and was appointed as a Director on 30 October 2013. He was appointed as the vice president of Kangda Group in charge of marketing department, technology management department and water projects management department on 28 July 2011. He is currently in charge of the marketing and business development of our Group. He has also served as a director of Jilin Kangda and Hebi Kangda since September 2011 and February 2012, respectively, and a director of Nanchang Qingshanhu Sewage since its 20% equity interest was indirectly acquired by Kangda Group in May 2013. He graduated from Tianjin Institute of Technology* (天津理工學院, currently known as Tianjin University of Technology* (天津理工大學)) located in Tianjin, with major in mechanical design in July 1991. He has more than 20 years of experience in relation to municipal environmental protection and was involved in a number of projects in municipal environmental design engineering, sewage treatment, solid waste disposal and research work on environmental protection facilities. Mr. Wang obtained the qualification of senior engineer in the PRC granted by the Tianjin Human Resource and Social Security Bureau* (天津市人力資源和社會保障局) in December 2010, and he has served as a member of the Committee for Drainage of Civil Engineering* (土木工程學會排水委員會) since November 2012. He has participated in the compilation of 10 sets of national standards in technology of construction and has been recognised by the MOHURD for his outstanding consultancy, project design and development of technology.

DIRECTORS AND SENIOR MANAGEMENT

Prior to joining our Group, his major work experiences in other organisations are set forth in the following table:

Company/Organisation	Principal Activities	Time	Position	Responsibilities
Tianjin Municipal Engineering Design & Research Institute* (天津市市政工程設計研究院)	Domestic and overseas engineering survey and design, supervision of civil engineering projects and other related activities	From May 2003 to April 2004	Head of design office	Project design and research
		From May 2004 to October 2005	Deputy director of the design institute	Daily management, project design and research
		From November 2005 to March 2007	Deputy head of the marketing department	Daily management
		From April 2007 to May 2011	Deputy president of design division	Daily management, project design and research

As at the Latest Practicable Date, Mr. Wang did not hold directorship in other listed companies in the past three years.

Non-executive Director

Mr. Zhuang Ping (莊平), aged 50, is a non-executive Director nominated by the Investor. He joined our Group on 30 October 2013 when he was appointed as a non-executive Director. He obtained a bachelor degree in water supply and engineering from Xi'an Institute of Metallurgy and Construction* (西安冶金建築學院, currently known as Xi'an University of Architecture and Technology* (西安建築科技大學)) located in Xi'an City, Shaanxi Province, in July 1983, a master degree in environmental engineering from Tianjin University* (天津大學) located in Tianjin, in June 1988, a doctorate degree in civil and environmental engineering from Clarkson University in New York, the US, in May 1994. Mr. Zhuang became a grade II wastewater treatment plant operator granted by the Water Pollution Control System Operations Certification Commission of the State of North Carolina, the US, in February 1996, a professional engineer in North Carolina, the US, in February 1997, a professional engineer in Florida, the US, in October 1997. His engineering license has been recognised by the National Council of Examination for Engineering and Surveying in the US in July 1997. He has been working for more than 20 years in the fields of urban development, water and wastewater treatment, solid waste management, groundwater and soil remediation, energy efficiency as well as many other infrastructure projects related work, including research, investment planning (fund raising), feasibility studies, project development, financing, implementation, operation and maintenance. He has participated in Asia Development Bank (ADB) financed environmental protection projects in China, mainly responsible for project implementation and commissioning.

DIRECTORS AND SENIOR MANAGEMENT

His past and current major work experiences in private company is set forth in the following table:

<u>Company/Organisation</u>	<u>Principal (Business) Activities</u>	<u>Time</u>	<u>Position</u>	<u>Responsibilities</u>
Easen International Co., Ltd. (美國宜生國際有限公司)	Providing consulting, engineering, investment and financial management services for environmental and infrastructure and related projects based in the United States and China	Since October 2005	Chairman, general manager	Project management

As at the Latest Practicable Date, Mr. Zhuang did not hold directorship in other listed companies in the past three years.

Independent Non-executive Directors

Mr. Tsui Yiu Wa Alec (徐耀華), aged 64, is an independent non-executive Director. He joined our Group on 30 October 2013 when he was appointed as an independent non-executive Director. Mr. Tsui graduated from the University of Tennessee located in Knoxville, Tennessee, the US, with a bachelor degree in science in industrial engineering in June 1975 and a master degree in engineering in June 1976 and completed the programme for senior managers in government at the John F. Kennedy School of Government at Harvard University located in Cambridge, Massachusetts, the US, in August 1993. Mr. Tsui has over 20 years of experience in finance and administration, corporate and strategic planning, information technology and human resources management.

DIRECTORS AND SENIOR MANAGEMENT

Mr. Tsui Yiu Wa Alec served various positions, including the chief executive of the Stock Exchange from February 1997 to August 2000, the chief operating officer of Hong Kong Exchanges and Clearing Limited (香港交易及結算所有限公司) from March 2000 to August 2000 and the chairman of Hong Kong Securities Institute (香港證券專業學會) from November 1998 to December 2004. Mr. Tsui has been the chairman of the board of directors of WAG Worldsec Corporate Finance Limited (香港華高和昇財務顧問有限公司), a private company which provides professional consulting services and financial solutions to corporations, since February 2006, mainly responsible for overall strategic direction and operational management.

His past and current major work experiences in listed companies are set forth in the following table:

Company/Organisation	Principal Business Activities	Time	Position	Responsibilities
Industrial and Commercial Bank of China (Asia) Limited (中國工商銀行(亞洲)有限公司)	Provides financial services	Since August 2000	Independent non-executive director	Chairman of the nomination committee, member of the audit committee and remuneration committee
China Chengtong Development Group Limited (中國誠通發展集團有限公司) (217.HK) ⁽¹⁾	Development of industry, logistics, land resource and real estate, sales of coal and financial leasing	From March 2003 to November 2013	Independent non-executive director	Chairman of compensation committee and member of audit committee and nomination committee
COSCO International Holdings Limited (中遠國際控股有限公司) (517.HK) ⁽¹⁾	Providing ship trading agency services, marine insurance brokerage services, supply of marine equipment and spare parts, production and sales of coatings products and trading and supply of marine fuel and related products	Since February 2004	Independent non-executive director	Chairman of nomination committee, member of audit committee, remuneration committee and corporate governance committee
China Power International Development Limited (中國電力國際發展有限公司) (2380.HK) ⁽¹⁾	Investment, development, operation and management of coal-fired power and hydropower plants in the PRC	Since March 2004	Independent non-executive director	Member of audit committee, remuneration and nomination committee

DIRECTORS AND SENIOR MANAGEMENT

Company/Organisation	Principal Business Activities	Time	Position	Responsibilities
China BlueChemical Ltd.* (中海石油化學股份有限公司) (3983.HK) ⁽¹⁾	Development, production and sales of mineral fertilisers and chemical products	From April 2006 to June 2012	Independent non-executive director	Chairman of the audit committee, member of the remuneration committee and the investment review committee
Melco Crown Entertainment Limited (新濠博亞娛樂有限公司) (6883.HK) ⁽¹⁾	Development of casino gaming and entertainment resort facilities	Since December 2006	Independent non-executive director	Chairman of nominating and corporate governance committee and member of audit committee and compensation committee
Pacific Online Limited, ATA Inc. (太平洋網絡有限公司) (543.HK) ⁽¹⁾	IT product-related and automobile-related businesses	Since November 2007	Independent non-executive director	Chairman of audit committee and remuneration committee, member of nomination committee
ATA INC (ATAI.NSDQ) ⁽²⁾	Providing professional services for testing, assessment and related services and the e-learning solution	Since January 2008	Independent non-executive director	Member of audit committee, compensation committee and nomination and corporate governance committee
China Oilfield Services Limited (中海油田服務股份有限公司) (2883.HK) ⁽¹⁾	Providing integrated oilfield service solution	Since June 2009	Independent non-executive director	Chairman of audit committee and member of remuneration committee

DIRECTORS AND SENIOR MANAGEMENT

Company/Organisation	Principal Business Activities	Time	Position	Responsibilities
Summit Ascent Holdings Limited (凱升控股有限公司) (102.HK) ⁽¹⁾	Trading of tiles and operations of engineering	Since March 2011	Independent non-executive director	Chairman of remuneration committee and corporate governance committee and member of audit committee and nomination committee
Melco Crown (Philippines) Resorts Corporation (新濠博亞度假村公司(菲律賓)) (formerly known as Manchester International Holdings Unlimited Corporation (曼徹斯特國際控股無限公司) (PSE. MCP) ⁽³⁾	Development of hotel and tourism	Since December 2012	Independent non-executive director	Chairman of the nominating committee and compensation committee

Notes:

- ⁽¹⁾ Companies listed in the Stock Exchange.
- ⁽²⁾ A company listed in the National Association of Securities Deal Automated Quotation (NASDAQ) in the US.
- ⁽³⁾ A company listed in the Philippine Stock Exchange Inc.

DIRECTORS AND SENIOR MANAGEMENT

Except as disclosed herein, as at the Latest Practicable Date, Mr. Tsui did not hold directorship in other listed companies in the past three years.

Mr. Yuan Shaoli (袁紹理), aged 59, is an independent non-executive Director. He joined our Group on 30 October 2013 when he was appointed as an independent non-executive Director. Mr. Yuan completed a programme provided by the department of finance, international trade and economics at Graduate School of Chinese Academy of Social Sciences* (中國社會科學院研究生院) located in Beijing with his major in international trade, in September 1998. Mr. Yuan had served as the deputy division chief, the division chief and a director of one of the central state ministries of the PRC for several years. He is familiar with Chinese laws and regulations and has extensive experience in business management, asset management, human resource management and public relations.

His past and current major work experiences in listed companies and private companies are set forth in the following table:

Company/Organisation	Principal (Business) Activities	Time	Position	Responsibilities
China Huandao (Group) Company (中國寰島(集團)公司)	Development, construction of real estate, hotel and tourism	Since April 2011	President	Overall operational management
China Chengtong Development Group Limited (中國誠通發展集團有限公司) (217.HK) ⁽¹⁾	Development of industry, logistics, land resource and real estate, sales of coal and financial leasing	Since March 2011	Executive director and vice chairman	Strategic planning, management of relationships between the company and the government as well as shareholders
		Since December 2013	Executive director and chairman	Strategic planning and overall management
China Chengtong Holdings Group Ltd. (中國誠通控股集團有限公司)	Assets management, integrated logistic service, capital goods trade, production and exploitation of forestry-pulp paper	October 2006 to June 2011	Vice president	Management and operation of assets and major administrative matters

Note:

⁽¹⁾ A company listed on the Stock Exchange.

Except as disclosed herein, as at the Latest Practicable Date, Mr. Yuan did not hold directorship in other listed companies in the past three years.

DIRECTORS AND SENIOR MANAGEMENT

Mr. Song Qianwu (宋乾武), aged 60, is an independent non-executive Director. He joined our Group on 30 October 2013 when he was appointed as an independent non-executive Director. Mr. Song graduated from Tsinghua University* (清華大學) located in Beijing, with a bachelor's degree in engineering physics in January 1978, a master's degree in environmental engineering in July 1985 and a doctorate degree in engineering in April 1991. Mr. Song has about 20 years of experience in environmental engineering. He obtained the qualification of professor of environmental engineering granted by the MEP in April 2005 and the qualification of registered environmental protection engineer in PRC granted by the Ministry of Personnel of the PRC* (中華人民共和國人事部), the MOHURD and the MEP in July 2008. He has published and presented more than 70 papers in domestic and international academic journals or at academic conferences. Mr. Song won awards from 1994 to 2010 for his valuable contribution in environmental protection, infrastructure and technology, and waste treatment in the PRC. Mr. Song was also awarded as the outstanding individual of Chinese Research Academy of Environmental Sciences* (中國環境科學研究院) for his contribution to emergency controlling of pollution in Songhua River* (松花江應急污染控制).

Mr. Song served in a number of committees or associations, including being an executive member of Solid Waste Treatment and Utilisation Committee of China Association of Environmental Protection Industry* (中國環保產業協會固體廢物處理利用專業委員會常務委員) in July 1994, a member of Examination Expert Group of Environmental Protection Administration Committee of National Survey and Design Registered Engineer* (全國勘察設計注冊工程師環保專業管理委員會考察專家組) from February 2004 to February 2007, a member of the 4th editorial committee of Research of Environmental Sciences* (《環境科學研究》) since September 2004, an executive member of the 1st Session of China Urban Water Association* (中國城鎮供水排水協會第一屆理事會) in March 2007, a member of Expert Group of China Engineering Education Accreditation Association* (全國工程教育專業認證專家委員會) from April 2007 to April 2011, a member of 1st Science and Technology Committee of China Urban Water Association* (中國城鎮供水排水協會第一屆科學技術委員會) in November 2007 and a member of the editorial committee of the Journal of Environmental Engineering Technology* (《環境工程技術學報》) started from September 2010 for a term of five years.

Mr. Song served as a part-time professor in the environmental engineering and management research centre of the Graduate School at Shenzhen* (深圳研究生院) of Tsinghua University* (清華大學) from June 2008 to June 2010 and from January 2012 to December 2013, a part-time professor in academy of environmental science and engineering of South China University of Technology* (華南理工大學) from December 2009 to November 2012 and a part-time professor in College of Water Science of Beijing Normal University* (北京師範大學水科學研究院) from December 2010 to November 2012.

DIRECTORS AND SENIOR MANAGEMENT

His past and current major work experiences in other organisation are set forth in the following table:

Company/Organisation	Principal (Business) Activities	Time	Position	Responsibilities
Chinese Research Academy of Environmental Sciences* (中國環境科學研究院)	A national non-profit making institute for environmental protection which carries out basic scientific research on environmental protection and takes national strategy of sustainable development	From July 1994 to July 1996	Deputy director of solid waste pollution controlling technology institute	Management of research projects
		From August 2005 to August 2007	Chief of engineering design centre	Management of research, engineering design and engineering consulting for government and private projects
		From September 2006 to September 2008	Vice general engineer	Technical review of the technical materials/results of environmental engineering design and consulting projects
Beijing Construction Engineering Tendering Co., Ltd.* (北京中交建設工程招標有限公司)	A professional bidding agency	Since May 2006	Bid evaluation expert	Bid evaluation

As at the Latest Practicable Date, Mr. Song did not hold directorship in other listed companies in the past three years.

None of our Directors has been involved in any of the events described under Rule 13.51(2)(h) to (v) of the Listing Rules.

SENIOR MANAGEMENT

Mr. Li Gang (李剛), aged 37, is chief financial officer of our Group primarily responsible for overseeing and coordinating the operation of our Group's finance department as well as managing the financial, accounting and taxation functions and financing activities of our Group. He joined our Group in July 2012 and was appointed as the chief financial officer of our Company on 26 September 2012. He obtained a bachelor's degree in accounting from the Beijing Institute of Light Industry* (北京輕工業學院) (now Beijing Technology and Business University* (北京工商大學)) located in Beijing in July 1998. He has been a fellow member of both the Chinese Institute of Certified Public Accountants and the Chinese Institute of Certified Public Valuers since August 2002 and January 2005, respectively.

DIRECTORS AND SENIOR MANAGEMENT

Prior to joining our Group, his major work experiences in other companies and other organisations are set forth in the following table:

Company/Organisation	Principal Business Activities	Time	Position	Responsibilities
Beijing Zhongzhou Guanghua CPA Firm* (北京中州光華會計師事務所)	Provides tax, audit and advisory services	From October 1999 to March 2003	Project manager	Project auditing and management matters
China Chengtong Holdings Group Ltd.* (中國誠通控股集團有限公司)	Assets management, integrated logistic service, capital goods trade, production and exploitation of forestry-pulp paper	From April 2003 to May 2004	Accounting manager	Management of daily accounting matters, participation into the company's decision-making and providing documents for financial decision making
Beijing Zhongzheng Tiantong CPA Firm* (北京中證天通會計師事務所)	Provides tax, audit and advisory services	From May 2004 to October 2007	Senior Manager	Overall management of projects, business development and client relationship maintenance
Ernst & Young* (安永會計師事務所)	Provides tax, audit and advisory services	From January 2008 to June 2012	Senior manager	Overall management of projects, business development and client relationship maintenance

As at the Latest Practicable Date, Mr. Li Gang did not hold any directorship in other listed companies in the past three years.

DIRECTORS AND SENIOR MANAGEMENT

Mr. Liang Zuping (梁祖平), aged 59, was appointed as the head of the auditing department of Kangda Group on 28 July 2011, mainly responsible for the internal auditing and risk control matters of our Group. He joined our Group in July 1996 and has served various positions, including finance manager, deputy head of finance department, head and vice manager of finance department of construction management centre, manager of audit and supervision department, chief of tender committee, head of company supervision department and head of the auditing department. He has also served as a director of Chongqing Zhongya, Tianjin Kangda, Harbin Kangda, Suzhou Water, Suzhou Kangda and Huadian Kangda since October 2007, December 2010, February 2011, February 2011, March 2013 and August 2013, respectively. Mr. Liang completed the education programmes on senior industrial accounting in Chongqing Staff Accountant Training College* (重慶職工會計專科學校) located in Chongqing Municipal, in autumn 1981, spring 1983 and autumn 1983. He has also completed a two-year long-distance programme on economics and management in Beijing Economic Correspondence University* (北京經濟函授大學, currently known as Beijing Institute of Economic Management Correspondence College* (北京經濟管理函授學院)) located in Beijing, in January 1989. He passed the examination of college level accounting* (會計專業職務大專水平) in Sichuan Province in September 1988. He has over 20 years experience over accounting, financing and auditing affairs and was qualified as an accountant in the PRC granted by the Ministry of Finance of the PRC in November 1993.

Prior to joining our Group, his major work experience in other organisation is set forth in the following table:

Company/Organisation	Principal (Business) Activities	Time	Position	Responsibilities
Chongqing Environmental Protection Engineering Design Institution* (重慶市環境保護工程設計所)	Engaged in projects related environmental protection and pollution control	From March 1990 to March 1996	Head of finance department	Financing related matters

As at the Latest Practicable Date, Mr. Liang Zuping did not hold any directorship in other listed companies in the past three years.

COMPANY SECRETARY

Ms. Chan Yin Wah (陳燕華) is a company secretary of our Company. She was nominated by SW Corporate Services Group Limited. Ms. Chan obtained a bachelor's degree in economics from the University of Hong Kong in December 1997 and a master's degree in professional accounting from the Hong Kong Polytechnic University in November 2002. She is a fellow member of The Hong Kong Institute of Chartered Secretaries and the Institute of Chartered Secretaries and Administrators in the United Kingdom. She is also a fellow member of the Association of Chartered Certified Accountants in the United Kingdom. She has over 15 years of professional experience in handling corporate secretarial, compliance and share registry matters for listed companies in Hong Kong which enabled her to discharge the functions as the company secretary of our Company. She currently acts as the company secretary of Silverman Holdings Limited (listed on the Main Board of the Hong Kong Stock Exchange (stock code: 1616)), Zhengye International Holdings Company Limited (listed on the Main

DIRECTORS AND SENIOR MANAGEMENT

Board of the Hong Kong Stock Exchange (stock code: 3363)) and CCID Consulting Company Limited (listed on the Growth Enterprise Market of the Hong Kong Stock Exchange (stock code: 8235)) and assistant to company secretary of Zhengzhou Coal Mining Machinery Group Company Limited (listed on the Main Board of the Hong Kong Stock Exchange (stock code: 0564)). She's currently an Associate Director of SW Corporate Services Group Limited.

MANAGEMENT PRESENCE IN HONG KONG

Rule 8.12 of the Listing Rules requires that a new applicant applying for a primary listing on the Stock Exchange must have a sufficient management presence in Hong Kong. This normally means that at least two of its executive directors must be ordinarily resident in Hong Kong. Since our principal business operations are conducted in the PRC, members of our senior management (other than Ms. Chan Yin Wah, who is ordinarily resident in Hong Kong) are and will therefore be expected to continue to be based in the PRC. Further, none of our executive Directors, will be ordinary resident or based in Hong Kong upon the Listing. We have applied to the Stock Exchange for and have obtained a waiver from the strict compliance with the requirement under Rule 8.12 of the Listing Rules. For details of the waiver, please refer to the section headed “Waiver from Strict Compliance with the Listing Rules — Management Presence”.

REMUNERATION POLICY

Our Directors and senior management receive compensation in the form of salaries, housing benefits, other allowances, benefits in kind, pension scheme contribution and discretionary bonus related to the performance of our Company. We also reimburse them for expenses which are necessarily and reasonably incurred for providing services to us or executing their functions in relation to our operations. We regularly review and determine the remuneration and compensation package of our Directors and senior management, by reference to, among other things, market level of salaries paid by comparable companies, the respective responsibilities of our Directors and the performance of our Company.

After the Listing, our Directors and senior management may also receive options to be granted under the Share Option Scheme. For further details of the Share Option Scheme, please refer to the paragraph headed “Share Option Scheme” in Appendix IV to this prospectus.

DIRECTORS' AND SENIOR MANAGEMENT'S REMUNERATION DURING THE TRACK RECORD PERIOD

For the years ended 31 December 2011, 2012 and 2013, the aggregate remuneration paid to our Directors and senior management by us and our subsidiaries was approximately RMB774,000, RMB3,607,000 and RMB6,341,000, respectively.

For the years ended 31 December 2011, 2012 and 2013, the aggregate remuneration paid to our five highest paid individuals was approximately RMB2,478,000, RMB3,461,000 and RMB6,005,000, respectively.

DIRECTORS AND SENIOR MANAGEMENT

Save as disclosed in this prospectus, no other emoluments have been paid, or are payable, by us to our Directors in respect of the years ended December 31, 2011, 2012 and 2013. Further, none of our Directors had waived any remuneration during the Track Record Period.

Under the arrangements currently in force, we estimate that the aggregate remuneration payable to, and benefits in kind receivable by, our Directors and senior management (excluding discretionary bonus) for the year ending 31 December 2014 will be approximately RMB8,772,690.

During the Track Record Period, no remuneration was paid by us to, or received by us, our Directors as an inducement to join or upon joining us or as compensation for loss of office. There was no arrangement under which a director waived or agreed to waive any remuneration during the Track Record Period.

For additional information on Directors' remuneration during the Track Record Period as well as information on the highest paid individuals, please refer to the Accountants' Report set out in Appendix I to this prospectus.

BOARD COMMITTEES

Audit Committee

We have established an audit committee pursuant to a resolution of our Directors passed on 30 October 2013 in compliance with Rule 3.21 of and paragraph C.3 of the Corporate Governance Code and Corporate Governance Report as set out in Appendix 14 to the Listing Rules. The primary duties of the audit committee are to assist our Board in providing an independent view of the effectiveness of our financial reporting process, internal control and risk management systems, oversee the audit process and perform other duties and responsibilities as assigned by our Board. At present, the audit committee of our Company consists of three independent non-executive Directors, being Mr. Tsui Yiu Wa Alec, Mr. Yuan Shaoli and Mr. Song Qianwu, and Mr. Tsui Yiu Wa Alec is the chairman of the audit committee.

As disclosed in the biography of Mr. Tsui in the section, Mr. Tsui is an independent non-executive director of a number of Hong Kong main board listed companies, for which he serves as the chairman or a member of the audit committee. The Directors are of the view that Mr. Tsui has the experience and qualification to act as the chairman of the audit committee of our Company.

Remuneration Committee

We have established a remuneration committee on 30 October 2013 with written terms of reference in compliance with Rule 3.25 of and paragraph B.1 of the Corporate Governance Code and Corporate Governance Report as set out in Appendix 14 to the Listing Rules. The primary duties of the remuneration committee are to review and approve the management's remuneration proposals with reference to the Board's corporate goals and objects and make recommendations to the Board on the remuneration package of individual executive Director and senior management. The remuneration committee consists of three members, namely Mr. Yuan Shaoli, Mr. Song Qianwu and Mr. Gu Weiping, and Mr. Yuan Shaoli is the chairman of the remuneration committee.

DIRECTORS AND SENIOR MANAGEMENT

Nomination Committee

We have established a nomination committee on 30 October 2013 with written terms of reference in compliance with paragraph A.5 of the Corporate Governance Code and Corporate Governance Report as set out in Appendix 14 to the Listing Rules. The primary function of the nomination committee is to make recommendations to the Board on the appointment or re-appointment of Directors and succession planning for Directors, in particular the chairman and the chief executive. The nomination committee consists of five members, comprising Mr. Zhao Juanxian, Mr. Tsui Yiu Wa Alec, Mr. Yuan Shaoli, Mr. Song Qianwu and Mr. Zhang Weizhong, and Mr. Zhao Juanxian is the chairman of the nomination of committee.

COMPLIANCE ADVISER

Our Company has appointed TC Capital Asia Limited as its compliance advisor pursuant to Rule 3A.19 of the Listing Rules. Pursuant to Rule 3A.23 of the Listing Rules and the terms of appointment, the compliance advisor will advise our Company on the following matters:

- (a) 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 our Company proposes to use the proceeds of the Global Offering in a manner different from that detailed in this prospectus or where its 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 our Company regarding unusual movements in the price or trading volume of the Shares of our Company.

The term of the appointment shall commence on the Listing Date and end on the date on which our Company distributes its annual report in respect of its 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

In preparation for the Listing, we have sought the following waivers from strict compliance with the relevant provisions of the Listing Rules:

MANAGEMENT PRESENCE

Rule 8.12 of the Listing Rules requires that a new applicant applying for a primary listing on the Stock Exchange must have a sufficient management presence in Hong Kong. This normally means that at least two of its executive Directors must be ordinarily resident in Hong Kong. Since our principal business operations of our Group are conducted in the PRC, members of our senior management (other than Ms. Chan Yin Wah, a company secretary of our Company, who is ordinarily resident in Hong Kong) are and will therefore be expected to continue to be based in the PRC. Further, as our executive Directors have a vital role in our Group's operations and it is crucial for them to remain in close proximity to our Group's central management located in the PRC. Our Company does not and, for the foreseeable future, will not have a sufficient management presence in Hong Kong.

Our Directors consider that it would be practically difficult, unduly burdensome and not commercially feasible for our Company to appoint two Hong Kong residents as executive Directors or to relocate any of our existing executive Directors to Hong Kong merely for the purpose of complying with Rule 8.12 of the Listing Rules, as such executive Director, not being physically present in the operational and management centre of our Group in the PRC at all time, may not be able to exercise his or her discretion on a fully informed basis, or make appropriate business decisions or judgments that are most beneficial to the operation and development of our Group. We have applied to the Stock Exchange for a waiver from strict compliance with the requirement under Rule 8.12 of the Listing Rules.

We have received from the Stock Exchange a waiver from compliance with Rule 8.12 of the Listing Rules subject to the following conditions:

- (a) we have appointed two authorised representatives pursuant to Rule 3.05 of the Listing Rules who will act as our principal communication channel with the Stock Exchange and will ensure that they comply with the Listing Rules at all times. The two authorised representatives appointed are Mr. Zhang Weizhong, an executive Director and chief executive officer of our Company, and Ms. Liu Zhiwei, an executive Director of our Company. Each of the authorised representatives will be available to meet with the Stock Exchange in Hong Kong within a reasonable period of time upon request and will be readily contactable by their respective mobile phone number, office phone number, e-mail address and facsimile number. Each of the two authorised representatives has been duly authorised to communicate on our behalf with the Stock Exchange;
- (b) we have appointed TC Capital Asia Limited to act as our compliance adviser pursuant to Rule 3A.19 of the Listing Rules who will have access at all times to our authorised representatives, Directors and senior management and will act as channel of communication with the Stock Exchange for a period commencing on the Listing Date and ending on the date on which we distribute the annual report for the first full financial year after the Listing Date in accordance with Rule 13.46 of the Listing Rules;

WAIVERS FROM STRICT COMPLIANCE WITH THE LISTING RULES

- (c) both the authorised representatives have means to contact all Directors promptly at all times as and when the Stock Exchange wishes to contact the Directors for any matters. We will implement a policy whereby (i) each Director (including the independent non-executive Directors) will provide his /her mobile phone number, office phone number, e-mail address and facsimile number to the authorised representatives; (ii) each Director (including our independent non-executive Directors) will provide valid phone numbers or means of communication to the authorised representatives when he/ she travels; and (iii) each Director (including our independent non-executive Directors) and each authorised representative will provide his/ her mobile phone number, office phone number, e-mail address and facsimile number to the Stock Exchange;
- (d) all of our executive Directors and independent non-executive Directors who are not ordinarily residents in Hong Kong have confirmed that they possess or will apply for valid travel documents to visit Hong Kong. As such, meetings between the Stock Exchange and the relevant Director(s) could be arranged through the authorised representatives or our compliance adviser, or directly with the relevant Director(s) within a reasonable time frame; and
- (e) we will inform the Stock Exchange as soon as practicable in respect of any change in the authorised representatives and/or the compliance advisor in accordance with the requirements of the Listing Rules.

SHARE CAPITAL

SHARE CAPITAL

The authorised and issued share capital of our Company as at the date of this prospectus is as follows:

Authorised share capital:	HK\$
5,000,000,000 Shares	50,000,000

Assuming the Over-allotment Option is not exercised and without taking into account any Shares which may be issued upon the exercise of any options granted under the Share Option Scheme, our Company's issued share capital immediately after completion of the Capitalisation Issue and the Global Offering will be as follows:

Issued and to be issued, full paid or credited as fully paid upon completion of the Capitalisation Issue and the Global Offering:

	HK\$	Approximate percentage of issued share capital (%)
Issued share capital:		
10,000 Shares in issue as at the date of this prospectus	100	0.0005
1,499,990,000 Shares to be issued under the Capitalisation Issue	14,999,900	74.9995
500,000,000 Shares to be issued under the Global Offering	<u>5,000,000</u>	<u>25.0000</u>
<u>2,000,000,000</u> Total	<u>20,000,000</u>	<u>100.0000</u>

Assuming the Over-allotment Option is exercised in full and without taking into account any shares which may be issued upon the exercise of any options that may be granted under the Share Option Scheme, our Company's issued share capital immediately following the completion of the Global Offering and the Capitalisation Issue will be as follows:

Issued and to be issued, full paid or credited as fully paid upon completion of the Capitalisation Issue and the Global Offering:

	HK\$	Approximate percentage of issued share capital (%)
Issued share capital:		
10,000 Shares in issue as at the date of this prospectus	100	0.0005
1,499,990,000 Shares to be issued under the Capitalisation Issue	14,999,900	72.2887
500,000,000 Shares to be issued under the Global Offering	5,000,000	24.0964
75,000,000 Shares to be issued under the Over-allotment Option	<u>750,000</u>	<u>3.6145</u>
<u>2,075,000,000</u> Total	<u>20,750,000</u>	<u>100.0000</u>

SHARE CAPITAL

RANKING

The Offer Shares are ordinary shares in the share capital of our Company and will rank *pari passu* in all respects with all Shares in issue or to be issued as set out in the above table, and will qualify and rank *pari passu* for all dividends or other distributions declared, made or paid after the date of this prospectus.

THE SHARE OPTION SCHEME

We have conditionally adopted the Share Option Scheme on 14 June 2014.

GENERAL MANDATE TO ISSUE SHARES

Our Directors have been granted a general unconditional mandate to allot, issue and deal with Shares with an aggregate nominal value of not more than the sum of:

- (i) 20% of the aggregate nominal value of the share capital of our Company in issue immediately following completion of the Capitalisation Issue and the Global Offering (excluding any Shares which may fall to be issued pursuant to the Over-allotment Option); and
- (ii) the aggregate nominal value of share capital of our Company repurchased by our Company (if any) under the general mandate to repurchase Shares referred to below.

This mandate will expire at the earliest of:

- (i) the conclusion of our Company's next annual general meeting unless renewed by an ordinary resolution of our Shareholders in a general meeting, either unconditionally or subject to conditions; or
- (ii) the expiration of the period within which our Company is required by law or the Articles of Association to hold its next annual general meeting; or
- (iii) the time when such mandate is varied, revoked or renewed by an ordinary resolution of our Shareholders in a general meeting.

Further details of this general mandate are set out in the paragraph headed "A. Further information about our Company — 4. Written resolutions of our Shareholders passed on 14 June 2014" in Appendix IV to this prospectus.

SHARE CAPITAL

GENERAL MANDATE TO REPURCHASE SHARES

Our Directors have been granted a general unconditional mandate to exercise all the powers of our Company to repurchase Shares with a total nominal value of not more than 10% of the aggregate nominal amount of the share capital of our Company in issue or to be issued immediately following completion of the Capitalisation Issue and the Global Offering (excluding any Shares which may fall to be issued upon the exercise of the Over-allotment Option).

This mandate only relates to repurchases made on the Stock Exchange, or any other approved stock exchange(s) on which the Shares are listed (and which is recognised for this purpose by the SFC and the Stock Exchange under the Code on Share Repurchases), and which are made in accordance with all applicable laws and/or requirements of the Listing Rules. A summary of the relevant Listing Rules is set out in the paragraph headed “A. Further information about our Company — 5. Repurchase of our shares” in Appendix IV to this prospectus.

This mandate will expire at the earliest of:

- (i) the conclusion of our Company’s next annual general meeting unless renewed by an ordinary resolution of our Shareholders in a general meeting, either unconditionally or subject to conditions; or
- (ii) the expiration of the period within which our Company is required by law or Articles of Association to hold its next annual general meeting; or
- (iii) the time when such mandate is varied, revoked or renewed by an ordinary resolution of our Company’s Shareholders in a general meeting.

For further details of this repurchase mandate, see the paragraph headed “A. Further information about our Company — 4. Written resolutions of our Shareholders passed on 14 June 2014” in Appendix IV to this prospectus.

FINANCIAL INFORMATION

You should read the following discussion and analysis of our financial condition and results of operations together with our financial statements as at and for each of the years ended 31 December 2011, 2012 and 2013 and the accompanying notes included in the accountants' report set out in Appendix I to this prospectus (the "Accountants' Report"). The Accountants' Report has been prepared in accordance with IFRSs. Potential investors should read the Accountants' Report and not rely merely on the information contained in this section. The following discussion and analysis contains forward-looking statements that involve risks and uncertainties. For additional information regarding these risks and uncertainties, please see "Risk Factors" in this prospectus for more details.

OVERVIEW

We are the leading privately-owned company for investing in and operating wastewater treatment facilities in China with the largest total daily wastewater treatment capacity in operation among privately-owned wastewater treatment investment and operation service providers in China as at 31 December 2013, according to Frost & Sullivan. Since 2000, privately-owned companies have gradually gained market share in the PRC wastewater treatment industry, which is currently dominated by state-owned enterprises. As at 31 December 2013, we accounted for approximately 1.0% of the municipal wastewater treatment market in China in terms of daily treatment capacity in operation according to Frost & Sullivan. We offer our customers customised and integrated wastewater treatment solutions and services mainly through service concession arrangements under BOT and TOT models.

Furthermore, we were among the first privately-owned participants in the wastewater treatment industry in China, with over 18 years of experience in successfully implementing wastewater treatment projects for our customers, according to Frost & Sullivan. We entered into our first wastewater treatment project under the BOT project model in 2003, and as at the Latest Practicable Date, we were engaged in the construction and/or operation of a total of 48 wastewater treatment projects under service concession arrangements, including 33 BOT projects and 15 TOT projects, covering 27 cities in nine provinces and directly-administered municipalities in China. Our aggregate daily wastewater treatment capacity in operation was 1,460,000 tonnes as at the Latest Practicable Date. We also had one water supply project as at the Latest Practicable Date.

We have accumulated significant technical expertise and operational experience in the wastewater treatment industry in China. This enables us to select and adopt advanced wastewater treatment technologies, which we apply to projects of various scales and different qualities of wastewater across China. We have adopted a series of result-oriented risk management procedures involving our senior management, operational, technical and financial teams, which are designed to optimise our project selection and operational efficiency and to secure timely wastewater tariff collection.

BASIS OF PRESENTATION

Our Company was incorporated in the Cayman Islands as a company with limited liability on 22 August 2011. On 11 June 2012, our Company became the holding company of the companies now comprising our Group. The reorganisation steps have been undertaken in preparation for the Global Offering. For details of the reorganisation steps, please refer to the section headed "History and Corporate Structure" in this Prospectus.

FINANCIAL INFORMATION

Merger accounting has been applied in the accounting of the reorganisation steps as if the reorganisation steps had been completed at the beginning of the Track Record Period. The consolidated statements of profit or loss and other comprehensive income, statements of changes in equity, and statements of cash flows of our Group include the results and cash flows of our Group from the earliest date presented or since the date where the subsidiaries and/or business first came under the common control of the Controlling Shareholders, where this is a shorter period. The consolidated statements of financial position of our Group as at 31 December 2011, 2012 and 2013 have been prepared to represent the assets and liabilities of the subsidiaries and/or businesses using the existing book values from the Controlling Shareholders' perspective. No adjustments have been made to reflect fair values, or recognise any new assets or liabilities as a result of the reorganisation steps. All intra-group transactions and balances have been eliminated on consolidation.

Our financial information as of the relevant period has been prepared by our directors in accordance with the International Financial Reporting Standards (“IFRSs”). Our financial information is presented in RMB and includes our core businesses — investing in the design, construction and engineering of wastewater treatment plants and municipal infrastructures, and operating wastewater treatment plants (the “Core Business”). Our financial information excludes certain other businesses, which are not strategically complementary to the Core Business, such as equipment sales and other environmental protection businesses (each a “Non-core Business”). For a description of the process which involved the disposal of entities engaged in Non-Core Businesses, please refer to the “History and Corporate Structure” section. Our Directors are of the view that the financial information of the Non-core Businesses should be excluded from the financial information of our Group throughout the entire Track Record Period in order to provide meaningful information about the Core Businesses to the potential investors of the Company. For the presentation of the financial information of our Group for the periods from 1 January 2011 to 31 December 2013 contained in this Prospectus, the carve-out approach has been adopted and the assets, liabilities and results of operations related to the Non-core Businesses operated by the above subsidiaries were excluded. In evaluating whether the Financial Information prior to the reorganisation steps fairly presents the history of our businesses, our Directors considered, among others, the following:

- (i) whether the Non-core Businesses were dissimilar businesses;
- (ii) whether the Non-core Businesses were and would be operated autonomously both before and after the reorganisation steps; and
- (iii) whether the Non-core Businesses had no more than incidental common facilities and costs.

On 3 May 2013, we completed the acquisition of Beijing Chang Sheng, a subsidiary of a listed company based in the PRC, for a consideration of RMB180.8 million. Such acquisition was accounted for using the purchase method. The cost of the acquisition was measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by our Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition were recognised at their fair values at the acquisition date.

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FACTORS AFFECTING OUR RESULTS OF OPERATIONS

Our results of operations have been and will continue to be affected by a number of factors, including the following:

Demand for our services and our ability to expand our business

Our results of operations are affected by the level of demand for municipal wastewater treatment services in China. We intend to further grow our service concession arrangement business. Demand for such services in China has been driven by various factors, including rapid population growth, urbanisation, changing economic conditions, macroeconomic policies of the PRC central and local governments, regulatory requirements pertaining to our industry and an increasing focus by the PRC central and local governments on environmental protection. We believe these factors will continue to have an impact on the demand for wastewater treatment, reclaimed water and sludge treatment services in China and on our business, financial condition, results of operations and prospects.

Demand for wastewater treatment services will depend, to a large extent, upon the PRC Government's expenditure on environmental protection industries. As local governments build facilities to improve water supplies and wastewater treatment, the wastewater treatment sector is expected to benefit from the increased investment. We believe that this increased spending on environmental protection industries will create additional opportunities in service concession arrangements. Furthermore, with environmental protection remaining a priority for the PRC Government in the 12th Five-Year Plan, we expect stricter environmental protection and water quality standards to be promulgated and implemented. We believe that an increasing number of wastewater treatment systems in the PRC will need to be built, upgraded or replaced. We anticipate that this will also result in more growth opportunities for our BOT and TOT projects. However, there is no assurance that the PRC Government will not change the current policies over environmental protection, which may in turn affect the outlook of our business and results of operations.

We will focus our efforts on utilising our resources to expand and strengthen our services in response to these demands. We intend to selectively expand our project portfolio in cities with favourable economic conditions as they tend to have stronger credit. We also seek to grow in areas where opportunities exist for us to provide wastewater treatment services in nearby towns or cities. We will continue to focus on markets where service requirements are linked to growing urbanisation, increasing standards of living and rising environmental and wastewater requirements.

Access to capital and cost of financing

Our service concession arrangement projects are capital intensive. Our performance is affected by our access to capital, the balance of our borrowings and the total amount raised through other financing methods, as well as any interest rate fluctuations and other financing costs. We actively seek to finance the development of BOT projects and the acquisition of TOT projects and other capital expenditures through cash flow from our operating activities, bank borrowings and the issue of shares. Our project loans generally have longer terms and better match the time frame of our projects. Going forward, we plan to continue to finance our capital needs with more project loans. Our borrowings and

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cost of financing also impact our financial performance. For the years ended 31 December 2011, 2012 and 2013, our average loan balances were RMB1,544.8 million, RMB1,926.5 million and RMB2,385.6 million, respectively. The weighted average interest rate applicable to our bank borrowings was 6.4%, 7.0% and 7.0% per annum, respectively, for the same years.

Any change in the interest rate on our borrowings or the amount of our borrowings will affect our interest payments and finance costs and therefore, affect our cash flow, financial condition and results of operations. In addition, our access to capital and cost of financing are also affected by restrictions imposed from time to time by the PRC Government to restrict money supply and availability of credit. For example, in June 2013, a spike in the interbank lending rate in China sent the Chinese credit market into turmoil. See “Risk Factors — Risks Relating to Our Business — We require substantial funding for our projects and our inability to borrow additional amounts or refinance our existing debt at reasonable rates could adversely affect our financial condition and results of operations and prevent us from fulfilling our financial obligations and business objectives” and “Risk Factors — Risks Relating to Our Business — We finance a substantial portion of our project investments through bank loans and our financing costs and profitability are subject to changes in interest rates required reserve ratios”.

If there are prolonged disruptions to the credit markets in the future, they could limit our ability to borrow funds from our current or other funding sources or cause the continued access to funds to become more costly, and our business may be exposed to a downturn in turnover that might be caused by such tightening of credit conditions.

Changes in government policies and regulations relating to the wastewater treatment

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 industry and changes in the implementation of such laws and regulations. Any changes in legislative or regulatory requirements may have an impact on our ability to provide our wastewater treatment services.

In recent years, the PRC Government has been increasingly focused on environmental protection. It encourages the development of the environmental protection industry and has stated its intention to increase investment in this industry, which in turn could increase demand for our services. Additionally, the PRC Government is setting stricter water quality standards, leading to implementation of more stringent environmental regulatory requirements. Such stricter regulatory requirements, which we believe we are well positioned to respond to, may present new business opportunities for us.

Currently, our business and operations in China require permits, licences 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 licences from the PRC authorities for 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 licences, permits and certificates are subject to periodic reviews and renewals by the relevant governmental authorities and the standards of compliance may, from time to time, be subject to change without any advanced notice.

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Any changes in the existing government policies and regulations relating to the wastewater treatment services industry may result in our failure to obtain or maintain the necessary permits, licences and certificates, which could have a negative impact on our business, financial condition, results of operations and prospects.

Operating costs and government pricing policies regarding our services

We are exposed to fluctuations in the prices of raw materials and the equipment used in constructing our treatment facilities as well as in the raw materials we use in our operation of wastewater treatment facilities. For our BOT and BT projects, the cost of construction services primarily includes contractor costs, procurement costs and installation of equipment costs we incur in respect of such projects. Our BOT and TOT projects incur operating costs that primarily include electricity costs, labour costs and chemical costs. Rising raw material, equipment and labour costs 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 labour and other operating costs may be limited by certain government pricing policies in place. For our service concession arrangement projects, the fees we receive typically include 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 when we enter into the project agreement with the local government or their designees. Accordingly, our revenue and profitability are affected by such tariff rates, which are determined by local governments based on factors, including, among others, the economic indicators for the regions in which our facilities are operating, and the supply of and demand for discharge of wastewater and the cost of providing wastewater treatment services in the relevant area. For our service concession arrangement projects, the concession agreements contain provisions specifying the circumstances in which the parties can adjust the tariffs, generally with reference to inflation and/or changes in benchmark interest rates on loans or utilities charges. The tariff adjustments are subject to the government's consent, which may be time consuming. The time lag between the increases in electricity, other raw material prices and labour costs and the tariff adjustment, if any, has impacted and will continue to impact our profit margins. Any adjustment agreed with the local government may or may not be timely or sufficient to offset such increases.

Project portfolio and project mix

We principally use the BOT and TOT models to provide wastewater treatment services. During the Track Record Period, we also provided services under the BT model, such as building road and drainage systems that are ancillary to our wastewater treatment facilities, and engaged in O&M and other construction service projects. The mix of BOT, TOT, BT, O&M and other construction service projects had an impact on our revenue and cost recognition, gross profit margin and cash flows. For instance, the profit margin for the construction portion of our BOT projects is determined by an Independent Third Party valuer, CBRE Limited, which generally determines the construction margin of a project by reference to the publicly available gross profit margins of entities primarily engaged in the construction of water and wastewater treatment facilities in similar locations in the PRC. In determining the construction margin, the Independent Third Party valuer, CBRE Limited, also

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considers, among other things, the operating status and financial conditions of the wastewater treatment plant, the terms and conditions of the relevant service concession agreement and the general economic condition and industry outlook. CBRE Limited has extensive experience in providing valuation services in, among others, the utility and infrastructure sectors including wastewater treatment, water supply, power plants, waste treatment, toll roads and tunnels, natural gas and thermal power generation. CBRE Limited has served as an adviser to companies listed on the Stock Exchange in respect of the provision of similar services. According to CBRE Limited, our gross construction margins for our newly-built service concession arrangement projects during the Track Record Period ranged from 16.0% to 20.3% over the Track Record Period, which were in line with the market norm. On the other hand, our profit margins for the BT projects are determined according to the relevant contract terms with customers, which may differ from the profit margins of our service concession arrangements or other construction service projects in the same period. In addition, different projects usually yield different rates of return.

The following tables illustrate the sensitivity of our BOT construction revenue and ending balance of financial receivables for the years ended 31 December 2011, 2012 and 2013 in relation to movements in our BOT construction margin for the respective periods indicated:

	Year ended 31 December					
	2011		2012		2013	
	Change in BOT Construction Revenue	% Change in BOT Construction Revenue	Change in BOT Construction Revenue	% Change in BOT Construction Revenue	Change in BOT Construction Revenue	% Change in BOT Construction Revenue
	RMB'000	%	RMB'000	%	RMB'000	%
2%	183,518	2.4	269,667	2.5	544,891	2.5
1%	181,299	1.2	266,284	1.2	538,011	1.2
0%	179,167	0.0	263,130	0.0	531,593	0.0
-1%	177,018	-1.2	259,765	-1.3	524,760	-1.3
-2%	174,952	-2.4	256,624	-2.5	518,376	-2.5

	As at 31 December					
	2011		2012		2013	
	Change in Financial Receivables	% Change in Financial Receivables	Change in Financial Receivables	% Change in Financial Receivables	Change in Financial Receivables	% Change in Financial Receivables
	RMB'000	%	RMB'000	%	RMB'000	%
2%	183,790	0.2	270,055	0.3	545,705	0.4
1%	181,432	0.1	266,471	0.1	538,404	0.2
0%	179,167	0.0	263,130	0.0	531,593	0.0
-1%	176,883	-0.1	259,565	-0.2	524,342	-0.2
-2%	174,688	-0.2	256,238	-0.3	517,567	-0.4

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We intend to continue to engage in service concession arrangement projects going forward. In addition, during the Track Record Period, we were engaged in the construction of four BT projects, three of which have entirely or partially entered into the repurchase periods while the remaining project has entered into repurchase discussions. Going forward, we do not intend to engage in new BT projects, which may affect our future financial condition and results of operations as we will not have revenues or cost of sales from BT projects. In addition, during the Track Record Period, even though the gross profit margin for the construction portion of our BT projects was higher than that of our service concession arrangement projects, gross profit margin for our BT segment was lower than our overall gross profit margin. Therefore, ceasing to engage BT projects may result in an increase in our overall gross profit margin. Please see “Business — BT Arrangements — Overview” for further details. Furthermore, the relative revenue contribution by our projects will depend on the markets in which we operate and on the level of government support and planning.

Taxation

As we operate in, and derive our revenue and profit from, China, our results of operations and profitability are affected by changes in tax rates in China. Our subsidiaries that are registered in China and have operations in China are subject to 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 relevant PRC laws and regulations, in order to encourage the development of environmental protection projects, companies carrying out environmental protection projects, or energy and water saving projects, which meet relevant requirements are entitled to an exemption from PRC income tax with respect to the income from such projects for the three years commencing from the first year it generates operating revenue. Thereafter, such entities are entitled to a 50% tax reduction in PRC income tax for the next three years. As at 31 December 2013, 23 of our projects were entitled to such preferential tax treatment according to relevant PRC tax laws and regulations. Our effective tax rates may change from year to year due to the enjoyment or expiration of such tax exemption/reduction by our various subsidiaries.

According to the Notice of Ministry of Finance and State Administration on Taxation on Value Added Tax Policy of Comprehensive Utilisation of Resources and Other Products, the state exempts the wastewater treatment services from value-added tax from 1 January 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 Notice of Ministry of Finance and the State Administration of Taxation on Value-Added Tax Policy of Comprehensive Utilisation of Resources and Other Products, all of our wastewater treatment project companies are exempt from paying PRC value-added tax on the provision of their respective wastewater treatment services.

Certain of our subsidiaries are engaged in the operation of wastewater treatment projects, and they are entitled to enterprise income tax based on 90% of revenue. Furthermore, certain subsidiaries operated in the western region of the PRC were subject to a preferred corporate income tax rate of 15%, provided the revenues from principal activities comprise more than 70% of the total revenues of the subject subsidiaries for the year.

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The termination or expiry of any of our existing preferential tax treatments will adversely affect our future operating results. Changes in the taxes applicable to our business in China in the future will affect our tax expenses and profitability.

Competition

We face competition in the wastewater investment and operation services market primarily from existing competitors in China and new entrants to the market. There are currently three main groups of participants in the PRC wastewater industry: (i) state-owned enterprises (“SOEs”); (ii) privately-owned companies and (iii) foreign companies. The PRC wastewater treatment industry is currently dominated by SOEs. We believe that factors critical to our competitiveness in this market include, among others, project execution capability, technical capability, understanding of the local governmental landscape, quality and price of wastewater treatment services, brand reputation, marketing and customer services.

CRITICAL ACCOUNTING POLICIES, ESTIMATES AND JUDGMENTS

Critical accounting policies and estimates are those that require our management to exercise judgment and make estimates that would yield materially different results if our management were to apply different assumptions or make different estimates. Our financial information has been prepared in accordance with IFRSs.

The preparation of the financial information in conformity with IFRSs 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 judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from the estimates. During the Track Record Period, our estimates and associated assumptions did not materially deviate from the actual results. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised if the revisions affect only that period, or in the period of the revisions and future periods if the revisions affect both current and future periods. During the Track Record Period, we did not revise our estimates and underlying assumptions. Our Directors do not expect that our estimates and underlying assumptions will change in the foreseeable future.

Below is a summary of the accounting policies in accordance with IFRSs that we believe are both important to the presentation of our financial results and the need to make judgements, estimates and assumptions about the effect of matters that are inherently uncertain. We also have other policies that we consider to be significant accounting policies, which are set forth in detail in Note 3.2 to the Accountants’ Report in Appendix I to this prospectus.

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Service concession arrangements

From time to time, our Group enters into a number of BOT and TOT service concession arrangements with the grantors, who are our customers and who are generally local government authorities or their designees. Under our BOT project models, we invest in the design and construction of and operate wastewater treatment plants in China generally for a period of 25 to 30 years (the “concession period”). In our TOT projects, we do not invest in the design or construction of the wastewater treatment plants. Under both of our BOT and TOT project models, we generally have the obligation to maintain the wastewater treatment plants in good condition. The grantors guarantee that we will receive minimum monthly payments in connection with the BOT and TOT arrangements. Our management has concluded that the BOT and TOT arrangements are service concession arrangements under IFRIC Interpretation 12 (“Service Concession Arrangements”), because our customers control and regulate the services that we must provide at a pre-determined service charge. Accordingly, for construction and upgrade services under our BOT arrangements, revenue is recognised in accordance with IAS 11 while for operation services under our BOT and TOT arrangements, revenue is recognised in accordance with IAS 18. In addition, upon expiry of concession agreements, the infrastructure has to be transferred to our customer at nil consideration.

In accordance with IFRIC Interpretation 12, the wastewater treatment projects under the service concession arrangements are classified as financial assets (financial receivables) as the investment by our Group under these service concession arrangements is covered by a payment commitment from the grantors. The fair value of consideration given by the grantors under our service concession arrangement projects were determined with reference to the guaranteed minimum tariff as stipulated in the relevant service concession agreements. There were few projects that were operating with additional waste water treatment in excess of minimum guaranteed volume, however, this situation is non-routine and uncertain and it is not probable that any expected future economic benefits that are attributable to the asset will flow to our Group. Since the volume of wastewater applied to calculate the minimum guaranteed tariff stipulated in the relevant service concession agreement generally covers a high percentage of the designed wastewater treatment capacity of a the relevant facility (in general, the volume of wastewater applied to calculate the minimum guaranteed tariff is approximately 60% to 80% and 90% to 100% of the designed wastewater treatment capacity of a relevant facility in the first and fourth or fifth year of the relevant facility’s operation, respectively), our initial investments for service concession arrangement projects generally could be recovered through the guaranteed minimum tariff of a relevant project and thus, our investment in such projects is accounted as financial assets (financial receivables) and no remainder is recognised as intangible assets in accordance with IFRIC Interpretation 12. The financial asset (financial receivables) is accounted for in accordance with the policy set out for loans and receivables under “financial assets” below.

Revenue from the construction services under the BOT service concession agreements is estimated with reference to the budgeted construction cost plus the prevailing market rate of gross margin, provided by an Independent Third Party valuer, CBRE Limited, at the date of the agreement applicable to similar construction services rendered in similar locations. In estimating the total budgeted costs for construction contracts, we make reference to (i) current offer prices from sub-contractors and suppliers, (ii) recent offers agreed with sub-contractors and suppliers and (iii) professional estimation on material costs, labour costs and other costs. As to our estimated gross margin, any changes thereto would lead to a corresponding change to our revenue from construction

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services under the BOT service concession agreements. In practice, we engage an Independent Third Party valuer, CBRE Limited, to value the margin of construction services, forming a basis for us to estimate construction budget revenue, which is recognised on the percentage of completion basis. This is measured by reference to the proportion of costs incurred to date to the estimated total cost of the relevant contract.

When we perform more than one service under a single BOT or TOT contract, the consideration received or receivable is allocated by reference to the relative fair values of the services delivered, including construction (in the case of BOT contracts), operation, and the financing service provided under such BOT or TOT contracts, if the fair value of each type of service is separately identifiable. For BOT contracts, the fair value of the construction services is estimated on a cost-plus basis with reference to a prevailing market price on the construction activity applicable to similar construction services rendered in similar locations. The fair value of the operation services under BOT and TOT contracts is estimated with reference to a prevailing market price on the operation activity applicable to similar services provided in similar locations and conditions. The fair value of financial income related to the financing service under the BOT and TOT contracts is calculated based on the interest rate applicable to the grantor at the inception of the BOT and TOT contracts.

BT arrangements

We carry out construction work on municipal infrastructures or infrastructures ancillary to wastewater treatment plants under the BT arrangements for certain PRC governmental authorities or agencies of the government (the “BT customers”). Our BT arrangements have an extended settlement term ranging from three to four years (the “repurchase period”).

We recognise a financial asset when we have an unconditional right under the relating BT arrangements to receive a fixed and determinable amount of payments during the repurchase period, which is accounted for in accordance with the policy set out for loans and receivables under “Appendix I — 3.2 Summary of Significant Accounting Policies — financial assets” in this prospectus.

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to our Group and when the revenue can be measured reliably, on the following bases:

- (i) from construction contracts, on the percentage of completion basis, as further explained in the accounting policy for “Appendix I — 3.2 Summary of Significant Accounting Policies — Construction contracts” in this prospectus:

Construction contracts:

Construction revenue primarily comprises (i) the agreed contract amount and appropriate amounts from variation orders, claims and incentive payments in respect of the construction

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services for BT arrangements and (ii) construction revenue recognised under the BOT arrangements. Contract costs incurred comprise direct materials, the costs of subcontracting, direct labour and an appropriate proportion of variable and fixed construction overheads.

Revenue from the construction services for BT arrangements is recognised on the percentage of completion basis, which is measured by reference to the proportion of costs incurred to date to the estimated total cost.

Revenue from the construction of wastewater treatment projects under the terms of BOT contracts is estimated on a cost-plus basis with reference to a prevailing market rate of gross margin at the date of the agreement applicable to similar construction services rendered in similar location, which is determined by an Independent Third Party valuer, CBRE Limited, and is recognised on the percentage of completion method, measured by reference to the proportion of costs incurred to date to the estimated total cost of the relevant contract.

Provision is made for foreseeable losses as soon as they are anticipated by management.

Where contract costs incurred to date plus recognised profits less recognised losses exceed progress billings, the surplus is treated as an amount due from contract customers.

- (ii) from the rendering of operation service of wastewater treatment projects, as and when the service is provided; and
- (iii) interest income, on an accrual basis using the effective interest method by applying the rate that discounts the estimated future cash receipts over the expected life of the financial instrument to the net carrying amount of the financial asset.

Financial assets — Loans and receivables

Initial recognition and measurement

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in any active market. When financial assets are recognised initially, they are measured at fair value plus transaction costs that are attributable to the acquisition of the financial assets.

After initial measurement, financial assets are subsequently measured at amortised cost using the effective interest rate method less any allowance for impairment. The effective interest rate is the rate that discounts future cash inflow. We determine the effective interest rate to be applied to our projects through the following methods: (i) for BOT and TOT projects, the suggested PBOC rate is the rate of the date on which the relevant project's concession agreement is executed; and (ii) for BT projects, the suggested PBOC rate is the rate on the execution date of the repurchase agreement. The effective interest rate amortisation is included in revenue, or other income and gains, as appropriate, in profit or loss. The loss arising from impairment is recognised in profit or loss and in other expenses.

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Derecognition of financial assets

We derecognise a financial asset (or, where applicable, a part of a financial asset or a group of similar financial assets) when (i) the rights to receive cash flows from the asset have expired; or (ii) we have transferred the rights to receive cash flows from the financial asset or have assumed an obligation to pay the received cash flows in full without material delay to a third party under a “pass-through” arrangement, and either (a) we have transferred substantially all of the risks and awards of the asset, or (b) we have transferred control of the asset.

When we transfer our right to receive cash flows from an asset or have entered into pass-through arrangement, we evaluate if and to what extent we have retained the risk and rewards of ownership of the asset. When we have neither transferred nor retained substantially all of the risk and rewards of the asset nor transferred control of the asset, we continue to recognise the transferred asset to the extent of our continuing involvement. In such case, we also recognise an associated liability. The transferred asset and the associated liability are measured on a basis that reflect the rights and obligations that we have retained.

Impairment of financial assets

We assess at the end of each the relevant periods whether there is objective evidence that a financial asset or a group of financial assets is required to be impaired. An impairment exists if one or more events that occurred after the initial recognition of the asset have an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that a debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

For financial assets carried at amortised cost, we first assess whether impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant, or collectively for financial assets that are not individually significant. If we determine that no objective evidence exists for an individually assessed financial asset, we then include the financial asset in a group of financial assets with similar credit risk characteristics and collectively assess them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in collective assessment of impairment.

The amount of impairment identified is measured as the difference between the asset’s carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset’s effective interest rate as computed at initial recognition.

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The carrying amount of the financial asset is reduced through the use of an allowance account and the loss is recognised in profit or loss. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or transferred to us.

In the event that the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, we increase or reduce the allowance account to reflect such change accordingly. If a write-off is later recovered, the recovery is credited to other expenses in profit or loss.

Deferred taxation

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the difference 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. The limited exceptions to recognising deferred tax assets and liability 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 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 probably 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 utilised. 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.

Withholding tax arising from the distribution of dividends

Our determination as to whether to accrue for withholding taxes arising from the distributions of dividends from certain subsidiaries according to the relevant tax jurisdictions is subject to judgement on the timing of the payment of the dividends or on whether certain of our subsidiaries is determined to be Chinese resident enterprise by the PRC tax authorities in the future. Our management considered that it is not probable that our subsidiaries in the PRC will distribute retained profits as at the end of each period during the Track Record Period in the foreseeable future, and accordingly no additional provision for withholding tax was made. Where the final outcome of these matters is different from the amounts originally rewarded, the difference will impact the deferred tax provision in the period in which the difference arises.

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Useful lives and residual values of items of property, plant and equipment

In determining the useful lives and residual values of items of property, plant and equipment, we periodically reviews the changes in market conditions, expected physical wear and tear, and the maintenance of the asset. The estimation of the useful life of the asset is based on our historical experience with similar assets that are used in a similar way. The depreciation amount will be adjusted if the estimated useful lives and/or the residual values of items of property, plant and equipment are different from previous estimation. Useful lives and residual values are reviewed, at each date of the consolidated statements of financial position, based on changes in circumstances.

RESULTS OF OPERATIONS

The following table sets forth selected items of our statement of profit or loss for the periods indicated:

	Years ended 31 December		
	2011	2012	2013
	RMB'000	RMB'000	RMB'000
Revenue	734,886	999,315	1,339,679
Cost of sales	(396,821)	(557,537)	(826,258)
Gross profit	338,065	441,778	513,421
Other income and gains	22,219	10,129	48,455
Selling and distribution expenses	(4,697)	(7,615)	(8,659)
Administrative expenses	(68,283)	(73,631)	(103,906)
Other expenses	(2,381)	(3,692)	(3,939)
Finance costs	(99,402)	(133,900)	(167,698)
Share of profit and loss of an associate	—	—	4,005
Profit before tax	185,521	233,069	281,679
Income tax expense	(28,631)	(35,696)	(49,050)
Profit for the year	<u>156,890</u>	<u>197,373</u>	<u>232,629</u>

PRINCIPAL INCOME STATEMENT COMPONENTS

Revenue

During the Track Record Period, we derived our revenue primarily from our three operating segments:

- (i) *Service Concession Arrangements*, which include investing in the design, construction and operation of wastewater treatment plants under BOT arrangements or operation of wastewater treatment plants under TOT arrangements;

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- (ii) *BT Arrangements*, which include investing in the design and construction of municipal infrastructure or infrastructure related to wastewater treatment plants; and
- (iii) *Others*, which include O&M services, construction services related to other construction service projects and other water treatment services, such as reclaimed water services.

The following table sets forth the revenue, cost of sales, gross profit and gross profit margin attributable to each of our operating segments for the years indicated:

	Years ended 31 December											
	2011				2012				2013			
	Cost of		GP		Cost of		GP		Cost of		GP	
	Revenue	Sales	Gross Profit	Margin	Revenue	Sales	Gross Profit	Margin	Revenue	Sales	Gross Profit	Margin
	RMB'000	RMB'000	RMB'000	%	RMB'000	RMB'000	RMB'000	%	RMB'000	RMB'000	RMB'000	%
Service concession arrangements												
- Construction	179,167	149,934	29,233	16.3	263,130	212,228	50,902	19.3	531,593	426,105	105,488	19.8
- Operation	259,223	128,182	131,041	50.6	313,913	159,447	154,466	49.2	325,715	172,978	152,737	46.9
- Financial income	107,198	—	107,198	—	127,166	—	127,166	—	173,051	—	173,051	—
Subtotal	<u>545,588</u>	<u>278,116</u>	<u>267,472</u>	<u>49.0</u>	<u>704,209</u>	<u>371,675</u>	<u>332,534</u>	<u>47.2</u>	<u>1,030,359</u>	<u>599,083</u>	<u>431,276</u>	<u>41.9</u>
BT Arrangements												
- Construction	180,882	114,277	66,605	36.8	282,202	184,255	97,947	34.7	293,123	219,649	73,474	25.1
- Financial income	2,462	—	2,462	—	10,963	—	10,963	—	8,719	—	8,719	—
Subtotal	<u>183,344</u>	<u>114,277</u>	<u>69,067</u>	<u>37.7</u>	<u>293,165</u>	<u>184,255</u>	<u>108,910</u>	<u>37.1</u>	<u>301,842</u>	<u>219,649</u>	<u>82,193</u>	<u>27.2</u>
Others												
- Construction	3,288	2,073	1,215	37.0	561	518	43	7.7	5,185	4,781	404	7.8
- Operation	2,666	2,355	311	11.7	1,380	1,089	291	21.1	2,293	2,745	(452)	(19.7)
Subtotal	<u>5,954</u>	<u>4,428</u>	<u>1,526</u>	<u>25.6</u>	<u>1,941</u>	<u>1,607</u>	<u>334</u>	<u>17.2</u>	<u>7,478</u>	<u>7,526</u>	<u>(48)</u>	<u>(0.6)</u>
Total	<u><u>734,886</u></u>	<u><u>396,821</u></u>	<u><u>338,065</u></u>	<u><u>46.0</u></u>	<u><u>999,315</u></u>	<u><u>557,537</u></u>	<u><u>441,778</u></u>	<u><u>44.2</u></u>	<u><u>1,339,679</u></u>	<u><u>826,258</u></u>	<u><u>513,421</u></u>	<u><u>38.3</u></u>

Service Concession Arrangements

Revenue under our service concession arrangements segment is divided into three parts:

Construction Revenue

Construction revenue is recognised in the consolidated statements of profit or loss and other comprehensive income on the basis of the percentage of completion, and financial receivables are correspondingly recognised in our consolidated statements of financial position. There is generally no payment for construction services, and hence no cash inflow, during the construction phase.

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During the Track Record Period, our construction revenue under our BOT projects increased. The growth in our revenue primarily resulted from an increase in the number of BOT projects we engaged in. Our total number of wastewater facilities under construction and being upgraded increased from 10 as at 31 December 2011 to 19 as at 31 December 2012 and 23 as at 31 December 2013.

Operation Revenue

During the operational phase when wastewater treatment services are being provided, we record the amount of revenue from such provision of wastewater treatment services in the consolidated statement of profit or loss and other comprehensive income. When tariff payments are received, the total amount received will be accounted for in the consolidated statements of cash flows. A portion of the received amount is allocated to settle the financial receivables referred to above and the trade and bills receivables in our consolidated statements of financial position.

During the Track Record Period, our operation revenue under our service concession arrangements increased. The growth in our operation revenue resulted from, among others, an increase in the number of our BOT projects and TOT projects in operation. The number of our BOT and TOT facilities in operation increased from 22 as at 31 December 2011 to 24 as at 31 December 2012 and 30 as at 31 December 2013.

Financial Income

Financial income is the portion of our revenue that continues to accrue on the outstanding financial receivables balance, using the effective interest method, till the end of the concession period. We generally set the effective interest rate with reference to the PBOC rate as of the date the relevant concession agreement is executed. During the Track Record Period, our financial income increased. The growth in our financial income was primarily a result of an increase in our financial receivables balances, which in turn was a result of the increase in the number of service concession arrangements we engaged in.

BT Arrangements

Construction Revenue

We recognise revenue for our BT arrangements on the percentage of completion basis, which is measured by reference to the proportion of costs incurred to date to the estimated total cost of the relevant contract. We recognise financial receivables when we enter into repurchase agreements and have an unconditional right under the BT arrangements to receive a fixed and determinable amount of payments during the repurchase period. When a repurchase payment is received, the total amount received will be accounted for in the consolidated statements of cash flows. The entire received amount is allocated to settle the financial receivables and trade and bills receivables under the consolidated statements of financial position.

During the Track Record Period, our construction revenue increased because of, among others, construction revenue recognised for the Wendeng BT project and Jilin BT project.

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Financial Income

At the same time, similar to our service concession arrangements, financial income continues to accrue on the outstanding financial receivables balance under our BT arrangements, using the effective interest method, with reference to the PBOC rate as of the date of the repurchase agreement.

During the Track Record Period, the financial income for our BT arrangements increased. The financial income for 2012 was larger than that for 2011 and 2013 because we entered into certain repurchase agreements for our Wendeng BT project in 2012 and we received repurchase payments for this project in 2013.

Seasonality

Construction revenue under our service concession arrangements and BT arrangements are subject to seasonal fluctuations. We generally recognise lower construction revenue in the winter season because our projects in the northeast and northern regions of China are often adversely influenced by climate conditions.

Others

Our revenue recorded under the others segment comprises the revenue from our O&M projects, construction services related to other construction services projects and other water treatment services. We recognise revenue when our services related to the operation and maintenance of the wastewater treatment facilities, construction services and other water treatment services are provided.

During the Track Record Period, we incurred more construction revenue and operation revenue under our others segment in 2011 and 2013 primarily because we engaged in more construction services related to other construction services projects in 2011 and 2013.

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Cost of Sales

Cost of sales primarily includes construction costs and operation costs, as applicable, for our BOT, TOT, BT and others projects. The following table sets forth a breakdown of our cost of sales for the periods indicated:

	Year ended 31 December		
	2011	2012	2013
Service concession arrangements			
Contractor costs	87,258	72,865	231,698
Installation of equipment costs	24,039	14,117	50,613
Procurement costs	19,458	66,673	83,566
Salaries, welfare and benefits relating to construction	1,282	2,383	4,320
Design and supervision costs	6,276	19,402	27,977
Project management costs	2,287	6,704	13,569
Land cost	8,039	26,815	5,000
Testing and other costs	1,295	3,269	9,362
Total construction cost	149,934	212,228	426,105
Electricity costs	48,020	66,634	78,392
Chemical costs	45,040	38,677	34,626
Salaries, welfare and benefits relating to operation	15,530	22,672	28,184
Maintenance costs	13,787	25,065	24,862
Sludge treatment and transportation and other costs	5,805	6,399	6,914
Total operation cost	128,182	159,447	172,978
Subtotal	278,116	371,675	599,083
BT arrangements			
Contractor costs	57,205	148,910	187,128
Installation of equipment costs	1,237	—	—
Procurement costs	41,291	16,126	8,588
Salaries, welfare and benefits relating to construction	2,172	7,016	7,907
Design and supervision costs	8,856	5,384	6,604
Project management costs	3,516	6,819	9,422
Subtotal	114,277	184,255	219,649

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	Year ended 31 December		
	2011	2012	2013
Others			
Construction costs	2,073	518	4,781
Operation costs	2,355	1,089	2,745
Subtotal	4,428	1,607	7,526
 Total	 396,821	 557,537	 826,258

For the years ended 31 December 2011, 2012 and 2013, our cost of sales represented 54.0%, 55.8% and 61.7%, respectively, of our revenue for the relevant period. Furthermore, during the Track Record Period, cost of sales for our service concession arrangements constituted 70.1%, 66.7% and 72.5% of our total cost of sales, respectively, while cost of sales for our BT projects made up 28.8%, 33.0% and 26.6% of our total cost of sales, respectively. Cost of sales for our BT projects as a proportion of our total cost of sales increased in 2012 primarily because we entered into more advanced construction phases for two of our BT projects and commenced construction of another BT project in 2012.

Service Concession Arrangements

Cost of sales for our service concession arrangement projects increased significantly over the Track Record Period primarily because of increases in construction costs, in particular contractor costs, procurement costs and installation of equipment costs. The rise in construction costs was primarily due to the increase in the number of our BOT projects under construction. During the Track Record Period, the operation costs for our service concession arrangement projects increased primarily because of an increase in the number of our projects in operation and rises in electricity costs, labour costs and maintenance costs at both BOT and TOT projects, which were partly offset by decreased chemical costs primarily because we implemented a centralised chemical procurement system.

BT Arrangements

Cost of sales for our BT arrangements increased during the Track Record Period primarily because of increases in construction costs, as described above, in particular contractor costs. Contractor costs for our BT projects increased significantly in 2012 mainly due to increases in contractor costs for the construction of two of our BT projects.

Others

Cost of sales for our others segment fluctuated during the Track Record Period. Changes in our cost of sales for this segment of our business over the Track Record Period primarily reflect changes in construction costs. We incurred more costs in 2013 than 2011 and 2012 primarily because of the contractor costs and design and supervision costs associated with one of our other construction service projects we engaged in during 2013.

FINANCIAL INFORMATION

Gross Profit and Gross Profit Margin

For the years ended 31 December 2011, 2012 and 2013, our gross profit was RMB338.1 million, RMB441.8 million and RMB513.4 million, respectively, and our gross profit margin was 46.0%, 44.2% and 38.3%, respectively, for the same periods. Our profit margin decreased from 44.2% in 2012 to 38.3% in 2013 primarily because of the lower profit margin for the Jilin BT project, which we entered into in 2012 and for which we commenced more advanced stages of construction in 2013.

As at the Latest Practicable Date, we had entered into the repurchase agreements for three of our BT projects and we had commenced repurchase discussions for Jilin BT project. We do not intend to engage in new BT projects in the foreseeable future. During the Track Record Period, the profit margin of our BT arrangement projects decreased primarily as a result of increased competition in the market. We believe that while our revenue may be adversely affected by our decision not to engage in new BT projects, our profit margin may increase as a result of us not entering into new BT projects because the overall profit margin for our BT projects is relatively low in comparison with that of our service concession arrangements.

Other Income and Gains

Other income and gains primarily consist of bank interest income, arrangement fees from a BT customer, government grants, interest income from Chongqing Kangte and its affiliates, bargain purchase gain on acquisition of subsidiaries and others. For the years ended 31 December 2011, 2012 and 2013, our other income and gains was RMB22.2 million, RMB10.1 million and RMB48.5 million, respectively. The following table sets forth a breakdown of our other income and gains for the periods indicated:

	Year ended 31 December		
	2011	2012	2013
	RMB'000	RMB'000	RMB'000
Other income and gains			
Bank interest income	2,039	2,615	3,356
Government grants	11,169	6,700	7,088
Interest income from Chongqing Kangte and its affiliates	7,462	—	—
Arrangement fee from a BT customer	—	—	18,699
Bargain purchase gain on acquisition of subsidiaries	—	—	18,529
Rental income less depreciation of investment properties	318	318	334
Others	1,231	496	449
Total	<u>22,219</u>	<u>10,129</u>	<u>48,455</u>

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During the Track Record Period, we received government grants relating to funds designated to promote environmental technological improvements. Our actual government grants change from year to year, and there are no conditions or contingencies attached to such grants.

For 2013, the bargain purchase gain on acquisition of a subsidiary of RMB18.5 million was attributable to the acquisition of Beijing Chang Sheng. Acquiring Beijing Chang Sheng was part of our strategy to increase our market share in the wastewater treatment industry. At the same time, the seller, which was an Independent Third Party, sold Beijing Chang Sheng in response to government guidance. The bargain purchase gain represents the difference between the consideration paid and total identifiable net assets at fair value, which is primarily determined by the fair value of financial receivables and trade receivables in connection with service concession arrangements and fair value of liabilities. Please refer to Note 32 of Accountants' Report attached as Appendix I to this prospectus for more details.

Our others income in 2013 included arrangement fees for the advance we provided to a customer for the preliminary work required for one of our projects in the amount of RMB18.7 million. As advised by our PRC legal adviser, Commerce & Finance Law Offices, it should be unlikely that such advance arrangements would be deemed in contravention of the Lending General Provisions and therefore, no fine should be imposed on us because the advance was provided by us to the BT customer as agreed within the scope of work for such project. Our others income in 2011 also included interest income from Chongqing Kangte, a related party, and its affiliates. This was related to an advance used by the related party to finance its operations, which advance was fully repaid at the beginning of 2012.

Selling and Distribution Expenses

Selling and distribution expenses primarily consist of sales staff's salaries, welfare and benefits, travel and entertainment expenses, marketing and office expenses and others expenses. For the years ended 31 December 2011, 2012 and 2013, our selling and distribution expenses were RMB4.7 million, RMB7.6 million and RMB8.7 million, respectively. During the Track Record Period, our selling and distribution expenses increased primarily because of increased marketing and travel expenses we incurred to support our market expansion activities as well as rises in salaries, welfare and benefits for our sales staff that resulted from our increased headcount and average compensation for our employees. Travel and entertainment expenses increased as we are headquartered in Chongqing and our sales staff were required to travel to other regions in China to expand our market reach.

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For the years ended 31 December 2011, 2012 and 2013, our selling and distribution expenses represented 0.6%, 0.8% and 0.6%, respectively, of our revenue for the relevant period. The following table sets forth a breakdown of our selling and distribution expenses for the periods indicated:

	For the years ended 31 December					
	2011		2012		2013	
	(RMB'000)	(%)	(RMB'000)	(%)	(RMB'000)	(%)
Salaries, welfare and benefits	1,256	26.7	1,763	23.2	2,571	29.7
Travel and entertainment expenses	2,066	44.0	2,829	37.2	2,979	34.4
Marketing and office expenses	720	15.3	2,489	32.7	2,771	32.0
Others	655	14.0	534	6.9	338	3.9
Total	4,697	100.0	7,615	100.0	8,659	100.0

Administrative Expenses

Our administrative expenses primarily consist of management and administrative staff's salaries, welfare and benefits, professional fees, office expenses, and travelling, transportation and entertainment expenses. For the years ended 31 December 2011, 2012 and 2013, our administrative expenses were RMB68.3 million, RMB73.6 million and RMB103.9 million, respectively. Our administrative expenses increased during the Track Record Period primarily because salaries, welfare and benefits and professional fees increased as a result of increases in compensation levels for our management. In addition, the increase in our administrative expenses was attributable to the rise in our professional fees, which are comprised of transaction costs relating to our acquisition of Beijing Chang Sheng and expenses related to our Global Offering.

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For the years ended 31 December 2011, 2012 and 2013, our administrative expenses represented approximately 9.3%, 7.4% and 7.8%, respectively, of our revenue for the relevant period. The following table sets forth a breakdown of our administrative expenses for the periods indicated:

	For the years ended 31 December					
	2011		2012		2013	
	(RMB'000)	(%)	(RMB'000)	(%)	(RMB'000)	(%)
Salaries, welfare and benefits	30,166	44.2	34,574	47.0	41,514	40.0
Professional fees	3,745	5.5	8,008	10.9	16,290	15.7
Office expenses	7,034	10.3	7,160	9.7	7,735	7.4
Travelling, transportation and entertainment expenses	12,644	18.5	10,140	13.8	17,975	17.3
Tax and compliance expenses	2,412	3.5	2,872	3.9	3,519	3.4
Banking commission	2,294	3.4	2,202	3.0	5,209	5.0
Rental and utilities	93	0.1	793	1.1	2,029	2.0
Fixed asset depreciation	3,125	4.6	4,056	5.5	5,225	5.0
Others	6,770	9.9	3,826	5.1	4,410	4.2
Total	<u>68,283</u>	<u>100.0</u>	<u>73,631</u>	<u>100.0</u>	<u>103,906</u>	<u>100.0</u>

Other Expenses

	For the years ended 31 December		
	2011	2012	2013
	(RMB'000)	(RMB'000)	(RMB'000)
Impairment of trade receivables	2,381	1,281	1,278
Foreign exchange losses	—	2,411	2,661
	<u>2,381</u>	<u>3,692</u>	<u>3,939</u>

During the Track Record Period, we recorded impairment of trade receivables based on our judgement in relation to our Anhui Suzhou Chengnan Wastewater Treatment Plant 1 primarily due to the aging of receivables from this customer. In addition, we incurred foreign exchange losses in relation to proceeds we received from the issue of shares we received and deposited abroad.

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Finance Costs

Our finance costs include interest on bank borrowings. Our finance costs were RMB99.4 million, RMB133.9 million and RMB167.7 million for the years ended 31 December 2011, 2012 and 2013, respectively. Our finance costs increased during the Track Record Period primarily because of increases in our outstanding loan balances. Our outstanding loan balances increased during the Track Record Period primarily because we procured additional loans to finance our business expansion. Our average loan balances for 2011, 2012 and 2013 were RMB1,544.8 million, RMB1,926.5 million and RMB2,385.6 million, respectively.

Income Tax Expense

Our income tax expense represents enterprise income tax expenses and the tax effect of temporary differences in revenue recognition.

Under the relevant rules and regulations of the Cayman Islands and the BVI, we are not subject to any income tax in the Cayman Islands or the BVI. We did not earn any taxable income subject to Hong Kong income tax during the Track Record Period.

Under the PRC Enterprise Income Tax Law, our subsidiaries in the PRC are generally subject to PRC income tax at the statutory PRC corporate income tax rate of 25%. Some of our subsidiaries meet relevant requirements for preferential tax treatment and are entitled to an exemption from PRC income tax with respect to the income of such projects for the three years commencing from the first year they generate operating revenue. Thereafter, such entities are entitled to a 50% tax reduction in PRC income tax for the next three years.

Certain of our subsidiaries are engaged in the operation of wastewater treatment projects, and they are entitled to enterprise income tax based on 90% of revenue.

Our income tax expenses for the years ended 31 December 2011, 2012 and 2013 were RMB28.6 million, RMB35.7 million and RMB49.1 million, respectively. Our effective tax rates for the years ended 31 December 2011, 2012 and 2013 were approximately 15.4%, 15.3% and 17.4%, respectively.

As at the Latest Practicable Date, we had paid or made provisions for paying all relevant taxes and we did not have any material disputes with the relevant tax authority.

PERIOD TO PERIOD COMPARISON OF RESULTS OF OPERATIONS

Year ended 31 December 2012 Compared to Year ended 31 December 2013

Revenue

Our revenue increased by RMB340.4 million, or 34.1%, from RMB999.3 million for the year ended 31 December 2012 to RMB1,339.7 million for the year ended 31 December 2013. The increase was primarily a result of an increase in the number of our service concession arrangements, which

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included an addition of one project in operation and four projects in construction in 2013 and revenue contribution from the projects we acquired from Beijing Chang Sheng. In addition, the increase in our revenue in 2013 was partially attributable to several phases of the construction revenue from Wendeng BT project and Jilin BT project.

Service Concession Arrangements

Construction Revenue: The construction revenue under our BOT projects increased from RMB263.1 million in 2012 to RMB531.6 million in 2013. Our construction revenue grew primarily because we commenced construction of four of our projects, including our Dongying Project, as well as upgrade and expansion projects on our existing facilities.

Operation Revenue: Our operation revenue under our service concession arrangements increased from RMB313.9 million in 2012 to RMB325.7 million in 2013. The growth in our operation revenue primarily resulted from the increase in our number of our BOT and TOT projects in operation primarily relating to the projects we acquired from Beijing Chang Sheng and an additional BOT project that became in operation.

Financial Income: Our financial income under our service concession arrangements projects increased from RMB127.2 million in 2012 to RMB173.1 million in 2013. The increase was primarily due to a rise in our financial receivables, which increased primarily because we had an increasing number of service concession arrangements.

BT Arrangements

Construction Revenue: Our construction revenue for our BT projects increased from RMB282.2 million in 2012 to RMB293.1 million in 2013 primarily because of the construction progress at our Jilin BT project.

Financial Income: The financial income for our BT projects decreased from RMB11.0 million in 2012 to RMB8.7 million in 2013. Our financial income decreased in 2013 primarily because we received repurchase payments for our Wendeng BT project, which decreased our financial receivables in 2013.

Others

Our revenue from other services increased from RMB1.9 million to RMB7.5 million primarily because of revenue related to a construction project that we conducted for the Jiaozuo municipal government.

Cost of Sales

Our cost of sales increased by RMB268.8 million, or approximately 48.2%, from RMB557.5 million for the year ended 31 December 2012 to RMB826.3 million for the year ended 31 December 2013. The increase was primarily a result of the increase in construction costs for our BOT and BT projects.

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Service Concession Arrangements

Construction Costs: Construction costs for our service concession arrangements increased by RMB213.9 million to RMB426.1 million in 2013 from RMB212.2 million in 2012. The increase primarily resulted from a rise in our contractor costs for four of our projects that commenced construction in 2013.

Operation Costs: Operation costs for our service concession arrangements increased by RMB13.6 million to RMB173.0 million in 2013 from RMB159.4 million in 2012. The increase was primarily a result of increases in labour and electricity costs we incurred in 2013, which in turn was mainly a result of more of our projects in operation. The rise in our labour and electricity costs was partially offset by a decrease in our chemical costs, mainly due to our centralised procurement efforts.

BT Arrangements

Construction Costs: Construction costs for our BT projects increased by RMB35.3 million to RMB219.6 million in 2013 from RMB184.3 million in 2012. The increase primarily resulted from increases in our contractor costs for the Jilin BT project.

Others

Our cost of sales for our O&M and other construction service projects increased by RMB5.9 million to RMB7.5 million in 2013 from RMB1.6 million in 2012. The increase was primarily a result of costs relating to a construction project that we undertook for the Jiaozuo municipal government.

Gross Profit and Gross Profit Margin

As a result of the foregoing, our gross profit increased by RMB71.6 million, or approximately 16.2%, from RMB441.8 million for the year ended 31 December 2012 to RMB513.4 million for the year ended 31 December 2013. Our gross profit margin decreased by 5.9% from 44.2% for the year ended 31 December 2012 to 38.3% for the year ended 31 December 2013.

Service Concession Arrangements

Construction Profit and Margin: Gross profit for the construction portion of our service concession arrangements increased by RMB54.6 million from RMB50.9 million in 2012 to RMB105.5 million in 2013. Our gross profit margin increased from 19.3% to 19.8%.

Operation Profit and Margin: Gross profit for the operation portion of our service concession arrangements decreased by RMB1.8 million from RMB154.5 million in 2012 to RMB152.7 million in 2013. Our gross profit margin decreased from 49.2% to 46.9% during the same period primarily due to increases in labour costs and electricity costs which were not fully captured by the increase in tariffs in 2013. While we have tariff adjustment mechanisms included in our project agreements, the increase in costs needs to meet the adjustment threshold stipulated in the agreements and we need our customers to complete the price adjustment process before such amendments can take place and such tariff adjustment may not always take place in the same period as the cost increase.

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BT Arrangements

Construction Profit and Margin: Gross profit for the construction portion of our BT projects decreased by RMB24.4 million from RMB97.9 million in 2012 to RMB73.5 million in 2013. During the same time, our gross profit margin decreased from 34.7% to 25.1% primarily because of pricing pressure resulting from competition, which led to lower profit margins for our Jilin BT project.

Others

Gross profit for our others business decreased by RMB0.4 million from profit of RMB0.3 million in 2012 to a loss of RMB48,000 in 2013. During the same period, our gross profit margin decreased by 17.8% from 17.2% in 2012 to (0.6)% in 2013. The decrease in our profit and profit margin was primarily because we were still at the early stage of operating our reclaimed water facility.

Other Income and Gains

Our other income and gains increased by RMB38.4 million from RMB10.1 million for the year ended 31 December 2012 to RMB48.5 million for the year ended 31 December 2013. The increase was primarily a result of (i) a RMB 18.5 million increase in the bargain purchase gain on acquisition of Beijing Chang Sheng, and (ii) an increase in other income of RMB18.7 million, which consisted primarily of the arrangement fee for the advance we provided to facilitate the preliminary work required at our Jilin BT project site.

Selling and Distribution Expenses

Our selling and distribution expenses increased by RMB1.1 million, or 14.5%, from RMB7.6 million for the year ended 31 December 2012 to RMB8.7 million for the year ended 31 December 2013. The increase was primarily due to increases in average employee compensation and increases in marketing expenses, travel and entertainment expenses in relation to our business expansion.

Administrative Expenses

Administrative expenses increased by RMB30.3 million, or 41.2%, from RMB73.6 million for the year ended 31 December 2012 to RMB103.9 million for the year ended 31 December 2013. The increase was primarily a result of (i) a rise in salaries, welfare and benefits because of increases in our employees' average compensation, (ii) professional fees, primarily including costs we incurred relating to our acquisition of Beijing Chang Sheng, and consultants we engaged for technical advice and expenses relating to the Global Offering and (iii) increases in travelling, transportation and entertainment expenses due to our further expanded geographic reach.

Other Expenses

Other expenses increased by RMB0.2 million, or 5.4%, from RMB3.7 million for the year ended 31 December 2012 to RMB3.9 million for the year ended 31 December 2013.

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Finance Costs

Our finance costs increased by RMB33.8 million, or 25.2%, from RMB133.9 million for the year ended 31 December 2012 to RMB167.7 million for the year ended 31 December 2013. The increase was primarily a result of an increase in the amount of our loans outstanding we used to finance our business expansion.

Income Tax Expense

Our income tax increased by RMB13.4 million, or 37.5%, from RMB35.7 million for the year ended 31 December 2012 to RMB49.1 million for the year ended 31 December 2013. The increase was primarily a result of our increase in profit before tax. In addition, some of our project companies were still in the construction phase, thus were not qualified to apply for any tax benefits. As a result, our effective income tax rate increased by approximately 2.1% from approximately 15.3% for the year ended 31 December 2012 to approximately 17.4% for the year ended 31 December 2013.

Profit For the Year and Net Profit Margin

As a result of the foregoing, our profit for the year increased by RMB35.2 million, or 17.8%, from RMB197.4 million for the year ended 31 December 2012 to RMB232.6 million for the year ended 31 December 2013. Our net profit margin decreased from 19.8% in 2012 to 17.4% in 2013 primarily because of a decrease in our gross profit margin, increase in administrative expenses, increase in finance costs and increase in income tax expenses as explained above.

Year ended 31 December 2011 compared with year ended 31 December 2012

Revenue

Our revenue increased by approximately RMB264.4 million, or approximately 36.0%, from approximately RMB734.9 million for the year ended 31 December 2011 to approximately RMB999.3 million for the year ended 31 December 2012. The increase was primarily a result of an increase in the number of our service concession arrangements. In addition, the increase in our revenue in 2012 was partially attributable to the recognition of several phases of the construction revenue from the Wendeng BT project and Jilin BT project.

Service Concession Arrangements

Construction Revenue: The construction revenue under our BOT projects increased by RMB83.9 million from RMB179.2 million in 2011 to RMB263.1 million in 2012. The growth in our construction revenue primarily resulted from an increase in the number of BOT projects that were under construction. Our total number of wastewater facilities under construction and being upgraded increased from 10 in 2011 to 19 in 2012. Our projects that commenced construction in 2012 included, among others, our Shangdong Haiyang Xingcun Wastewater Treatment Plant and three upgrade projects.

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Operation Revenue: Our operation revenue under our service concession arrangements increased by RMB54.7 million from RMB259.2 million in 2011 to RMB313.9 million in 2012. The growth in our operation revenue primarily resulted from the addition of two projects in operation, and an increase in tariffs at several of our facilities, including Gaomi No. 2 Wastewater Treatment Plant Phase I and Phase II and Jiaozuo City Wastewater Treatment Plant Phase II.

Financial Income: Our financial income under our service concession arrangements increased from RMB107.2 million in 2011 to RMB127.2 million in 2012. The growth in our financial income was primarily due to an increase in our financial receivables. Our financial receivables increased primarily because we recognised a larger amount of construction revenue from an increasing number of service concession arrangements.

BT Arrangements

Construction Revenue: Our construction revenue for our BT projects increased from RMB180.9 million in 2011 to RMB282.2 million in 2012 primarily because (i) our construction at the Wendeng BT project reached a more advanced phase, and (ii) we commenced construction of the Jilin BT project in 2012.

Financial Income: The financial income for our BT projects increased by RMB8.5 million to RMB11.0 million in 2012 from RMB2.5 million in 2011 primarily because we entered into the repurchase agreements for several phases of our Wendeng BT project and Kaifeng BT project, which led to an increase in financial receivables in 2012.

Others

Our revenue from other services decreased by RMB4.1 million to RMB1.9 million in 2012 from RMB6.0 million in 2011 primarily because of a decrease in the number of our other construction service projects as we completed construction for one of our other construction service projects in 2011.

Cost of Sales

Our cost of sales increased by RMB160.7 million, or approximately 40.5%, from RMB396.8 million for the year ended 31 December 2011 to RMB557.5 million for the year ended 31 December 2012. The increase was primarily a result of increases in construction costs and operation costs.

Service Concession Arrangements

Construction Costs: Construction costs for our service concession arrangement projects increased by RMB62.3 million to RMB212.2 million in 2012 from RMB149.9 million in 2011. The increase was primarily due to a larger amount of procurement costs. In turn, our procurement costs increased primarily because more of our construction projects entered into more advanced phases in 2012 and thus more equipment needed to be procured.

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Operation Costs: Operation costs for our service concession arrangements increased by RMB31.2 million to RMB159.4 million in 2012 from RMB128.2 million in 2011. The increase was primarily due to increases in labour, electricity and maintenance costs we incurred in 2012, which in turn was mainly a result of an increased number of projects in operation and the enlargement of treatment capacity at several of our facilities. The increase was partially offset by a decrease in our raw material costs consisting primarily of decreases in chemical costs, mainly due to our efforts to centralise procurement.

BT Arrangements

Construction costs: Construction costs for our BT projects increased by RMB70.0 million to RMB184.3 million in 2012 from RMB114.3 million in 2011. The increase was primarily due to increases in our contractor costs for our Wendeng BT project and Jilin BT project.

Others

Our cost of sales for our O&M and other construction management projects decreased by RMB2.8 million to RMB1.6 million in 2012 from RMB4.4 million in 2011. The decrease was primarily due to a reduction in the number of our other construction service projects.

Gross Profit and Gross Profit Margin

As a result of the foregoing, our gross profit increased by RMB103.7 million, or approximately 30.7%, from RMB338.1 million for the year ended 31 December 2011 to RMB441.8 million for the year ended 31 December 2012. Our gross profit margin decreased by 1.8% from 46.0% for the year ended 31 December 2011 to 44.2% for the year ended 31 December 2012.

Service Concession Arrangements

Construction Profit and Margin: Gross profit for the construction portion of our service concession arrangements increased by RMB21.7 million from RMB29.2 million in 2011 to RMB50.9 million in 2012. During the same period, our gross profit margin increased from 16.3% to 19.3%. The margin was valued by an Independent Third Party valuer, CBRE Limited, with reference to the prevailing market price for similar construction services provided in similar locations and under similar conditions.

Operation Profit and Margin: Gross profit for the operation portion of our service concession arrangements increased by RMB23.5 million from RMB131.0 million in 2011 to RMB154.5 million in 2012. During the same period, our gross profit margin decreased from 50.6% in 2011 to 49.2% in 2012 primarily because of increases in labour costs and electricity costs which were not fully captured by the increase in tariffs in 2012. While we have tariff adjustment mechanisms included in our project agreements, the increase in costs needs to meet the adjustment threshold stipulated in the agreement and we need our customers to complete the tariff adjustment process before such amendments can take place. As a result, such tariff adjustment may not always take place in the same period as the cost increase.

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BT Arrangements

Construction Profit and Margin: Gross profit from the construction portion of our BT projects increased by RMB31.3 million from RMB66.6 million in 2011 to RMB97.9 million in 2012. During the same period, our gross profit margin decreased from 36.8% in 2011 to 34.7% in 2012 primarily because of pricing pressure, leading to lower profit margins for our Jilin BT project.

Others

Our gross profit decreased by RMB1.2 million from RMB1.5 million in 2011 to RMB0.3 million in 2012.

Other Income and Gains

Our other income and gains decreased by RMB12.1 million, or 54.5%, from RMB22.2 million for the year ended 31 December 2011 to RMB10.1 million for the year ended 31 December 2012. The decrease was primarily because of a reduction of RMB4.5 million in the amount of government grants we received in 2012 and because interest income from Chongqing Kangte and its affiliates declined from RMB7.5 million in 2011 to nil in 2012.

Selling and Distribution Expenses

Our selling and distribution expenses increased by RMB2.9 million, or 61.7%, from RMB4.7 million for the year ended 31 December 2011 to RMB7.6 million for the year ended 31 December 2012. The increase was primarily a result of an increase in marketing and office expenses. We incurred more marketing expenses because we expanded our marketing efforts in 2012.

Administrative Expenses

Administrative expenses increased by RMB5.3 million, or 7.8%, from RMB68.3 million for the year ended 31 December 2011 to RMB73.6 million for the year ended 31 December 2012. The increase was primarily a result of increases in salaries, welfare and benefits we incurred as our headcount increased and an increase in professional fees, which were partly offset by a decrease in travelling expenses.

Other Expenses

Other expenses increased by RMB1.3 million, or 54.2%, from RMB2.4 million for the year ended 31 December 2011 to RMB3.7 million for the year ended 31 December 2012. The increase was primarily a result of foreign exchange losses we incurred in relation to our issue of shares.

Finance Costs

Our finance costs increased by RMB34.5 million, or 34.7%, from RMB99.4 million for the year ended 31 December 2011 to RMB133.9 million for the year ended 31 December 2012. The increase was primarily a result of increases in our amounts of loans we used to finance our business expansion and an increase in weighted average interest rate.

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Income Tax Expense

Our income tax increased by RMB7.1 million, or 24.8%, from RMB28.6 million for the year ended 31 December 2011 to RMB35.7 million for the year ended 31 December 2012. The increase was primarily a result of an increase in our profit before tax. In addition, our effective income tax rate remained relatively stable at approximately 15.3% for the year ended 31 December 2012, compared with approximately 15.4% for the year ended 31 December 2011.

Profit For the Year and Net Profit Margin

As a result of the foregoing, our profit for the year increased by RMB40.5 million, or 25.8%, from RMB156.9 million for the year ended 31 December 2011 to RMB197.4 million for the year ended 31 December 2012. Our net profit margin decreased from 21.3% in 2011 to 19.8% in 2012 primarily because of decreases in our gross profit margin and increases in our finance costs.

LIQUIDITY AND CAPITAL RESOURCES

Our primary uses of cash are investment in our projects, construction of our wastewater treatment facilities and costs and expenses related to the operation and maintenance of our facilities. To date, we have funded our operations principally with external bank borrowings, cash generated from our operations and equity contributions. In the future, we believe that our liquidity requirements will be satisfied with a combination of cash flows generated from our operating activities, bank loans and other borrowings, net proceeds from this Global Offering and other funds raised from the capital markets from time to time. Any significant decrease in demand for, or pricing of, our products and services or a significant decrease in the availability of bank loans may adversely impact our liquidity.

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Cash Flow

As at 31 December 2011, 2012 and 2013, we had cash and cash equivalents of approximately RMB245.8 million, RMB543.8 million and RMB275.6 million, respectively. The following table sets forth our cash flows for the periods indicated:

	Year ended 31 December		
	2011	2012	2013
	RMB'000	RMB'000	RMB'000
Net cash flow used in operating activities ⁽¹⁾	(147,992)	(382,364)	(205,773)
Net cash flow from/(used in) investing activities	(88,894)	70,958	(224,501)
Net cash flow from financing activities	<u>243,244</u>	<u>611,797</u>	<u>164,743</u>
Net increase/(decrease) in cash and cash equivalents	6,358	300,391	(265,531)
Effect of foreign exchange rate changes	—	<u>(2,411)</u>	<u>(2,661)</u>
Cash and cash equivalents at beginning of year	<u>239,416</u>	<u>245,774</u>	<u>543,754</u>
Cash and cash equivalents at end of year	<u><u>245,774</u></u>	<u><u>543,754</u></u>	<u><u>275,562</u></u>

Note:

- (1) For the three years ended 31 December 2011, 2012 and 2013, we invested RMB129.6 million, RMB317.9 million and RMB471.7 million, respectively, in our BOT and TOT projects. Such investments were counted towards cash flow used in operating activities. Under the relevant accounting treatment, part of such cash outflow used in operating activities was used to form the non-current portion of financial receivables in our consolidated statement of financial position. We would have incurred cash outflows used in operating activities of RMB18.4 million and RMB64.5 million in 2011 and 2012 and cash inflows of RMB265.9 million in 2013 if our investments in BOT and TOT activities were not accounted for as cash flows used in operating activities.

Cash flows used in operating activities

For the year ended 31 December 2013, our net cash used in operating activities amounted to RMB205.8 million, primarily reflecting our profit before tax of RMB281.7 million, as negatively adjusted by (i) an increase in financial receivables of RMB644.8 million primarily as a result of an increase in our number of service concession arrangements, and (ii) an increase in construction contracts of RMB164.2 million as a result of construction at our Jilin BT project in 2013, which were partially offset by (i) a decrease in prepayments, deposits and other receivables in the amount of RMB102.8 million as a result of the repayment of an amount we provided to a BT customer to facilitate the preliminary work required for one of our projects, and (ii) an increase in trade and bills payables of RMB109.4 million as a result of our increase in outstanding amount owed to suppliers as our business expanded.

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For the year ended 31 December 2012, our net cash used in operating activities amounted to RMB382.4 million, primarily reflecting our profit before tax of RMB233.1 million, as negatively adjusted by (i) an increase in financial receivables of RMB455.2 million as a result of increase in our number of service concession arrangements and certain phases of our Wendeng BT project entering into the repurchase period in 2012, (ii) an increase in trade receivables of RMB154.2 million, which was primarily attributable to more phases of our Wendeng BT project entering into the repurchase period, (iii) an increase in prepayments, deposits and other receivables of RMB136.6 million, which primarily reflected an advance provided to a BT customer to facilitate the preliminary work for one of our projects and (iv) an increase in construction contracts of RMB39.5 million due to construction work performed at our Jilin BT project, partly offset by reduced construction contracts as a result of entering into repurchase agreements for certain phases of our Wendeng BT project. Such negative adjustments were partially offset by an increase in trade and bills payables of RMB31.1 million primarily as a result of our increase in outstanding amounts owed to suppliers in connection with increased procurement costs.

For the year ended 31 December 2011, our net cash used in operating activities amounted to RMB148.0 million, primarily reflecting our profit before tax of RMB185.5 million, as negatively adjusted by (i) an increase in financial receivables of RMB403.3 million as a result of an increase in our number of service concession arrangements and the entry into repurchase agreements for certain phases of Wendeng BT project, (ii) an increase in prepayments, deposits and other receivables of RMB21.0 million because of advances we provided to our contractors, and (iii) an increase in construction contracts of RMB77.2 million as a result of construction of our BT projects, including Wendeng BT project and Kaifeng BT project, which were partially offset by an increase in trade and bills payables of RMB104.1 million as a result of our increase in outstanding amounts owed to suppliers arising from our business expansion.

Cash flows from/(used in) investing activities

For the year ended 31 December 2013, our net cash used in investing activities amounted to RMB224.5 million, primarily reflecting (i) a RMB131.8 million payment for acquisition of a subsidiary, Beijing Chang Sheng, (ii) a RMB83.0 million increase in pledged deposits as a result of our applying more bills to pay for our expenses and (iii) a RMB12.3 million purchase of items of property, plant and equipment, which included RMB9.6 million used for construction of our office building in Zhengzhou to facilitate our future expansion in the surrounding area and purchases of office equipment and vehicles in the amount of RMB2.7 million.

For the year ended 31 December 2012, our net cash from investing activities amounted to RMB71.0 million, primarily reflecting the repayment of an advance we had previously provided to Chongqing Kangte in the amount of RMB145.8 million, which was partially offset by (i) a RMB37.0 million deposit for acquisition of a subsidiary, Beijing Chang Sheng, (ii) a RMB28.9 million increase in pledged deposits as a result of our applying more bills to pay for our expenses and (iii) a RMB8.8 million purchase of items of property, plant and equipment, which included RMB4.0 million used for construction of our facilities relating to the Jilin reclaimed water facility and purchases of office equipment and vehicles in the amount of RMB4.8 million.

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For the year ended 31 December 2011, our net cash flow used in investing activities amounted to RMB88.9 million, primarily reflecting (i) an advance we provided to Chongqing Kangte in the amount of RMB110.1 million, and (ii) RMB26.1 million in purchases of items of property, plant and equipment, which included RMB22.8 million for the construction of the facility for one of our other water treatment service projects, and (iii) purchases of office equipment, including vehicles, in the amount of RMB3.3 million, which were partially offset by (i) a RMB34.3 million decrease in pledged deposits as a result of decreases in the amounts required to be pledged for our bills, and (ii) receipt of RMB5.9 million in proceeds from disposal of a subsidiary, Kangyan Construction.

Cash flows generated from financing activities

For the year ended 31 December 2013, our net cash flow from financing activities amounted to RMB164.7 million, primarily reflecting an increase in new bank borrowings in the amount of RMB1,586.9 million. Such cash inflows were partially offset by (i) a RMB1,259.6 million repayment of bank borrowings and (ii) a RMB166.5 million payment of interest expenses.

For the year ended 31 December 2012, our net cash flow from financing activities amounted to RMB611.8 million, primarily reflecting (i) an increase in new bank borrowings in the amount of RMB1,541.0 million and (ii) proceeds from the issue of shares in connection with Exchangeable Bonds in the amount of RMB601.4 million. Such cash inflows were partially offset by (i) a RMB1,026.4 million repayment of bank borrowings, (ii) a RMB375.0 million payment for distribution in connection with the Corporate Reorganisation, and (iii) a RMB132.9 million payment of interest expenses.

For the year ended 31 December 2011, our net cash flow from financing activities amounted to RMB243.2 million, primarily reflecting (i) an increase in new bank borrowings in the amount of RMB700.5 million and (ii) an increase in proceeds from capital contribution of RMB88.3 million. Such cash inflows were partially offset by (i) a RMB451.6 million repayment of bank borrowings and (ii) a RMB96.3 million payment of interest expenses.

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Current Assets and Liabilities

The following table sets forth details of our current assets and liabilities as at the dates indicated:

	As at 31 December			As at 30 April
	2011	2012	2013	2014
	RMB'000	RMB'000	RMB'000	RMB'000
Current assets				
Inventories	5,214	5,313	3,108	3,299
Construction contracts	347,539	387,083	551,325	551,325
Financial receivables	428,155	541,868	714,398	737,696
Trade and bills receivables	67,628	220,499	229,362	204,705
Prepayments, deposits and other receivables	184,557	145,424	80,098	146,751
Pledged deposits	27,441	56,341	139,324	87,845
Cash and cash equivalents	245,774	543,754	275,562	460,202
Total current assets	1,306,308	1,900,282	1,993,177	2,191,823
Current liabilities				
Trade and bills payables	377,077	407,695	537,452	490,229
Other payables and accruals	26,822	40,011	53,456	49,481
Interest-bearing bank borrowings	662,412	768,171	785,341	883,861
Tax payable	9,783	6,077	4,915	179
Total current liabilities	1,076,094	1,221,954	1,381,164	1,423,750
Net current assets	230,214	678,328	612,013	768,073

We recorded net current assets of approximately RMB230.2 million, RMB678.3 million and RMB612.0 million as at 31 December 2011, 2012, and 2013, respectively. Our current assets consist of construction contracts, financial receivables, trade and bills receivables, cash and cash equivalents, inventories and pledged deposits. The key components of our current liabilities include interest-bearing bank borrowings and trade and bills payables. Our net current assets decreased from RMB678.3 million as at 31 December 2012 to RMB612.0 million as at 31 December 2013, primarily because of a significant increase in trade and bills payables and a decrease in our cash and cash equivalents primarily as a result of our engaging in more service concession arrangement projects. Service concession arrangement contracts require us to incur contractor costs, resulting in higher payables and reduced cash as financial receivables increase. Our net current assets increased from RMB230.2 million as at 31 December 2011 to RMB678.3 million as at 31 December 2012, primarily because of a significant increase in cash and cash equivalents, financial receivables and trade receivables. The increase in cash and cash equivalents primarily related to cash received from an issue of shares in connection with the Exchangeable Bond. In addition, financial receivables increased because we engaged in more service concession arrangement projects.

The increase in our current assets from 31 December 2013 to 30 April 2014 was primarily caused by an increase in our cash and cash equivalents as a result of cash received from additional long-term borrowings to finance our existing projects. Our current liabilities increased from 31 December 2013 to 30 April 2014 mainly due to the increase in interest-bearing bank borrowings as a result of certain amount of long-term interest-bearing borrowings becoming due within one year.

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Working Capital

During the Track Record Period, we met our working capital needs mainly from our cash and cash equivalents on hand, cash flow generated from operations, bank borrowings and equity financing. We manage our cash flow and working capital by closely monitoring and managing, among other things, (i) the level of our trade payables and receivables; and (ii) our ability to obtain external financing. We also review future cash flow requirements and assess our ability to meet debt repayment schedules and adjust our investment and financing plans, if necessary, to ensure that we maintain sufficient working capital to support our business operations and expansion plans.

Although we had negative operating cash flow during the Track Record Period, it was mainly due to our BOT and TOT project models. Under relevant accounting treatment, part of our cash flow used in operating activities has been used to form the non-current portion of financial receivables in our consolidated statement of financial position. For details of our operating cash flow, please refer to “— Liquidity and Capital Resources — Cash Flow — Cash flows used in operating activities”.

In addition, as at 30 April 2014, we had already obtained banking facilities with several banks of up to RMB9,809.9 million, of which an amount of approximately RMB6,330 million had not been utilised. We have maintained strong and long-term relationships with major commercial banks and financial institutions in the PRC, such as Industrial and Commercial Bank of China and Chongqing Rural Commercial Bank. Our project loan agreements generally require us to buy certain insurance, including insurance covering construction related risk and completion delay, set the minimum amount for repayment of each quarter with reference to our fees collected from the projects, and prohibit dividend distributions prior to loan repayments. In addition, we are generally required to open an escrow account with the lending financial institution that is to be the designated account for receipt of monthly wastewater treatment fees from the local governments or their designees. During the Track Record Period, we made all interest and principal payments on our bank loans in a timely manner and we have been able to renew or roll over our bank loans at maturity as required. We do not foresee any immediate repayment requirement for our bank loans nor withdrawal or reduction in banking facilities on short notice that could have a material adverse effect on our liquidity position. The Directors also confirm that we had no material defaults in payment of trade and other payables and banking borrowings or breaches of finance covenants during the Track Record Period.

Based on foregoing and taking into account the financial resources available to us, including our cash and cash equivalents on hand, cash flow generated from operations, unutilised facilities and debt financing we may obtain, as well as the estimated net proceeds from the Global Offering, our Directors are of the opinion, and the Joint Sponsors concur, that we have sufficient working capital required for our operations at present and for at least the next 12 months from the date of this Prospectus.

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Inventories

Our inventories consist of raw materials only. The following table sets forth the breakdown of our inventories as of the dates indicated:

	As at 31 December		
	2011	2012	2013
	RMB'000	RMB'000	RMB'000
Raw materials	5,214	5,313	3,108

Our inventories remained relatively stable at approximately RMB5.3 million as at 31 December 2012, compared with approximately RMB5.2 million as at 31 December 2011. Our inventories decreased to approximately RMB3.1 million as at 31 December 2013, primarily as a result of a decrease in the need for raw materials following our completion of the construction of several of our projects.

As at 30 April 2014, all of our inventories as at 31 December 2013 had been sold or utilised.

The following table sets forth our average inventory turnover days for the periods indicated:

	As at 31 December		
	2011	2012	2013
Average inventory turnover days ⁽¹⁾	3.2	3.4	1.9

Note:

- (1) Average inventory turnover days equal to the average of the opening and closing balances of inventories of the relevant period divided by cost of sales of the relevant year and multiplied by 365 days. Our raw materials primarily include chemicals and building materials.

The average inventory turnover days increased from 3.2 days for the year ended 31 December 2011 to 3.4 days for the year ended 31 December 2012, primarily as a result of raw materials we procured for two of our BT projects, and decreased to 1.9 days for the year ended 31 December 2013 primarily because we did not engage in new BT projects and thus did not need to maintain building materials inventory.

Construction Contracts

Construction contracts are gross amounts due from customers for contract work, which represent the revenue to be received from construction under our BT arrangements and other construction service projects. The amount due from customers for construction contracts is classified as current assets as of a particular balance sheet date. At the time we begin performing construction work, construction contracts represent the gross amount expected to be collected from customers for contract

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work performed but for which billing has not yet been made. On the date we enter into repurchase agreements with our customers with respect to our BT arrangements, or at the time actual progress billing is made to our customers for other construction service, the gross amount expected to be collected from customers for contract work performance would be transferred from construction contracts to financial receivables for BT arrangement projects and trade receivables for other construction service projects.

As at 31 December 2011, 2012 and 2013, the gross amount due from customers for contract work represented 26.6%, 20.4% and 27.7% of our total current assets, respectively. Construction contracts increased by 11.4% from RMB347.5 million as at 31 December 2011 to RMB387.1 million as at 31 December 2012, primarily due to the construction progress of our Wendeng BT project and Jilin BT project. Construction contracts further increased by 42.4% to RMB551.3 million as at 31 December 2013, primarily due to construction progress of our Jilin BT project.

Financial Receivables

Financial receivables comprise receivables for service concession arrangements and BT project receivables. Under our service concession arrangements, the amount under service concession arrangement receivables will be settled by tariff payments to be received during the operational phase of our BOT and TOT projects. Under our BT arrangements, the amount under BT receivables will be settled by payments during the repurchase period as stipulated under the relevant repurchase agreements with our BT project customers. The portion of the financial receivables 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. At the time of actual billing to our BOT and TOT customers, the amount billed is transferred from financial receivables to trade receivables, while the amount to be received at each settlement date within the repurchase period for BT projects is then transferred to trade receivables.

As at 31 December 2011, 2012 and 2013, financial receivables that were classified as current assets represented 32.8%, 28.5% and 35.8% of our total current assets, respectively. Financial receivables that were classified as current assets increased by 26.6% from RMB428.2 million as at 31 December 2011 to RMB541.9 million as at 31 December 2012, primarily due to (i) an increase in the number of service concession arrangements, and (ii) our entering into the repurchase agreements with respect to certain phases of our Wendeng BT project. Financial receivables that were classified as current assets further increased by 31.8% to RMB714.4 million as at 31 December 2013, primarily as a result of (i) an increase in the number of service concession arrangements, and (ii) our entering into the repurchase agreements with respect to certain phases of our Gaomi BT project.

As at 31 December 2011, 2012 and 2013, financial receivables that were classified as non-current assets represented 95.1%, 92.5% and 94.5% of our total non-current assets, respectively. Financial receivables that were classified as non-current assets increased by 23.0% from RMB1,486.9 million as at 31 December 2011 to RMB1,828.4 million as at 31 December 2012, and further increased by 40.6% to RMB2,571.3 million as at 31 December 2013 primarily due to an increase in the number of service concession arrangements.

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Trade and Other Receivables

Trade and Bills Receivables

The following table sets forth a breakdown of our trade and bills receivables as at the dates indicated:

	As at 31 December		
	2011	2012	2013
	RMB'000	RMB'000	RMB'000
Trade and bills receivables			
Receivables for service concession arrangements	51,284	72,166	90,295
Receivables for BT arrangements	3,782	142,579	76,759
Receivables for other construction service projects and other water treatment	15,117	9,590	6,474
Provision for impairment	(2,555)	(3,836)	(5,114)
Bill receivables	—	—	60,948
Portion classified as current assets	67,628	220,499	229,362

Trade and bills receivables primarily consist of receivables for service concession arrangements, BT project receivables, other construction service project trade receivables, bills receivables and provision for impairment. Our trade and bills receivables increased from approximately RMB67.6 million as at 31 December 2011 to approximately RMB220.5 million as at 31 December 2012 primarily because of increases in BT project receivables relating to our Wendeng BT project. Our BT project receivables decreased as at 31 December 2013 as the customer for our Wendeng BT project partially settled payment by bank acceptance bill, which was recorded as bill receivables as at 31 December 2013. As a result, our trade and bills receivables remained relatively stable at approximately RMB229.4 million as at 31 December 2013 as compared to approximately RMB220.5 million as at 31 December 2012. During the Track Record Period, substantially all of our trade and bills receivables were due from municipal, district or county level governments or their designees.

The following table sets forth the aging analysis of our trade receivables as at the dates indicated:

	As at 31 December		
	2011	2012	2013
	RMB'000	RMB'000	RMB'000
Within 3 months	44,302	84,478	114,900
4 to 6 months	14,430	51,382	31,837
7 to 12 months	1,486	72,827	8,094
Over 12 months	7,410	11,812	13,583
Total	67,628	220,499	168,414

As at 30 April 2014, approximately RMB104.3 million, or 45.5%, of our trade and bills receivables as at 31 December 2013 was settled.

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The following table sets forth the average turnover days of our trade and bills receivables for the periods indicated:

	As at 31 December		
	2011	2012	2013
Average turnover days of our service concession arrangement receivables ⁽¹⁾	34.3	37.4	32.0

Note:

- (1) Average turnover days of our service concession arrangement receivables equals to service concession arrangement receivables at the end of period divided by service concession arrangement revenue for the period and multiplied by 365 days. Such calculation, excluding BT arrangements, is used due to (i) our Directors' view that tariff collection under service concession arrangement being the key and meaningful liquidity indicator for wastewater treatment service providers and (ii) the fact that we do not intend to engage in new BT projects in the future.

The average turnover days of our service concession arrangement receivables remained relatively stable during the Track Record Period.

Prepayments, Deposits and Other Receivables

The following table sets forth the prepayments, deposits and other receivables as at the dates indicated:

	As at 31 December		
	2011	2012	2013
	RMB'000	RMB'000	RMB'000
Prepayments, Deposits and Other receivables			
Prepayments	7,755	14,116	21,655
Amounts due from Chongqing Kangte and its affiliates	145,778	—	—
Staff advances	2,407	1,562	3,221
Other receivables from a BT customer	—	100,000	—
Deposits for a TOT project	—	30,000	—
Deposits for acquisition of Beijing Chang Sheng	—	37,000	—
Deposits and other receivables	28,617	29,746	55,222
Less: non-current portion	—	67,000	—
Current portion	184,557	145,424	80,098

Prepayments, deposits and other receivables primarily consist of prepayments, other receivables from a BT customer, amounts due from Chongqing Kangte and its affiliates, deposits for a TOT project, deposits for acquisition of Beijing Chang Sheng and deposits and other receivables. Our prepayments, deposits and other receivables (current portion) decreased from RMB184.6 million as at 31 December 2011 to approximately RMB145.4 million as at 31 December 2012 primarily because of repayment of amounts due from Chongqing Kangte and its affiliates in 2012, offset by deposits related to transfer of a TOT project, deposits for acquisition of Beijing Chang Sheng, and other receivables

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from a BT customer. Our prepayments, deposits and other receivables (current portion) decreased to approximately RMB80.1 million as at 31 December 2013 primarily because of the transfer of deposit of a TOT project into financial receivables, transfer of deposit into purchase consideration once we completed the acquisition of Beijing Chang Sheng, and repayment of an advance we provided to facilitate the preliminary work required at our Jilin BT project.

Trade and Bills Payables

The following table sets forth the components of our trade and bills payables as at the dates indicated:

Group

	As at 31 December		
	2011	2012	2013
	RMB'000	RMB'000	RMB'000
Bills payable ⁽¹⁾	56,522	88,860	178,883
TOT payables ⁽²⁾	114,260	72,025	37,044
Trade payables	210,025	251,061	327,965
	380,807	411,946	543,892
Less: non-current portion	3,730	4,251	6,440
Current portion	377,077	407,695	537,452

Notes:

- (1) Our Group's bills payables were secured by the pledged deposits amounting to RMB27.4 million, RMB56.3 million and RMB139.3 million, respectively, as at 31 December 2011, 2012 and 2013.
- (2) TOT payables represented amounts due to the grantors based on payment schedules set out in the relevant TOT contracts at the end of each of the relevant periods.

Trade and bills payables primarily consist of bills payables, TOT payables and trade payables. Our trade and bills payables increased from approximately RMB380.8 million as at 31 December 2011 to approximately RMB411.9 million as at 31 December 2012 primarily because we used notes to pay for a larger portion of our expenses. Our trade and bills payables increased to approximately RMB543.9 million as at 31 December 2013 primarily because of our business expansion. Our trade and bills payables, excluding trade and bills payables for our TOT projects, were RMB266.5 million, RMB339.9 million and RMB506.9 million, for the years ended 31 December 2011, 2012 and 2013, respectively primarily because of our expanded business operation and payment to our suppliers and contractors.

As at the 30 April 2014, approximately RMB277.6 million, or 51.7%, of our trade payables as at 31 December 2013 had been settled.

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The following table sets forth the aging analysis of our trade and bills payables as at the dates indicated:

	As at 31 December		
	2011	2012	2013
	RMB'000	RMB'000	RMB'000
Within 3 months	93,893	67,307	83,160
3 months to 6 months	105,437	162,452	231,451
7 months to 12 months	128,541	74,119	161,026
More than 12 months	52,936	108,068	68,255
	380,807	411,946	543,892

The following table sets forth the average turnover days of our trade and bills payables for the periods indicated:

	As at 31 December		
	2011	2012	2013
Average turnover days of our trade and bills payables ⁽¹⁾⁽²⁾	245.2	222.5	223.9

Notes:

- (1) Average turnover days of our trade and bills payable equal to trade and bill payables excluding TOT payables at the end of period divided by cost of sales of the year and multiplied by 365 days.
- (2) During the Track Record Period, average turnover days of our trade and bills payables were over 200 days because (i) we generally make progress payments only up to approximately 70% of our total contracted amount; and (ii) we are generally entitled to settle the final payment, which is typically 5% to 20% of the total contracted amount, of a relevant supply contract in one to two years after the completion of the relevant project.

The average turnover days of our trade and bills payables decreased from 245.2 days for the year ended 31 December 2011 to 222.5 days for the year ended 31 December 2012, primarily because we settled a portion of our payables for our BT and BOT projects prior to 31 December 2012. The average turnover days of our trade and bills payables for the year ended 31 December 2013 remained stable at 223.9 days.

Other Payables and Accruals

Other payables and accruals primarily consist of accrued salaries, wages and benefits, interest payables, other taxes payables, amounts due to a non-controlling shareholder of Jilin Kangda, and other payables.

FINANCIAL INFORMATION

CAPITAL EXPENDITURES

Historical Capital Expenditures

Our capital expenditures have principally consisted of expenditures on (i) manufacturing, production and office equipment, and leasehold improvements and construction in progress at our other water treatment service facility and office building in Zhengzhou, and (ii) our BOT and TOT projects. For the years ended 31 December 2011, 2012 and 2013, we incurred capital expenditures in the amounts of approximately RMB217.6 million, RMB410.6 million and RMB776.3 million, respectively, because we undertook more service concession arrangement projects over the Track Record Period, and completed acquisition of Beijing Chang Sheng in 2013. Please refer to the section headed “History and Corporate Structure” for details in relation to our acquisition of Beijing Chang Sheng. The following table sets out our historical capital expenditures for the periods indicated:

	Year ended 31 December		
	2011	2012	2013
	RMB'000	RMB'000	RMB'000
Intangible assets	398	96	162
Property, plant and equipment	26,123	8,824	12,292
Service concession arrangement related	<u>191,079</u>	<u>401,728</u>	<u>763,885</u>
Total	<u>217,600</u>	<u>410,648</u>	<u>776,339</u>

Planned Capital Expenditures

As part of our future growth strategy, we had committed to future capital expenditures of approximately RMB1,512.6 million as at 31 December 2013. Based on our current project list, we expect to incur an approximately RMB1,040.9 million in capital expenditures in 2014 and RMB482.7 million in the first half of 2015, respectively.

We anticipate that our planned capital expenditures will be financed by cashflows from operating activities, external bank loans and proceeds from this Global Offering. The estimated amounts of expenditures set out above may vary from the actual amounts of expenditures for a variety of reasons, including changes in market conditions, competition, and other factors.

Our current plan with respect to future capital expenditures is subject to change based on the evolution of our business plan, including potential acquisitions, the progress of our capital projects, market conditions and our outlook of future business conditions. As we continue to expand, we may incur additional capital expenditures. Our ability to obtain additional funding in the future is subject to a variety of uncertainties, including our future results of operations, economic, political and other conditions in the PRC, PRC Government policies relating to our industry and relevant rules and regulations in the PRC and Hong Kong regarding debt and equity financing. Other than as required by law, we do not undertake any obligation to publish updates of our capital expenditure plans. See “Forward-Looking Statements” in this prospectus.

FINANCIAL INFORMATION

CONTRACTUAL COMMITMENTS

Capital Commitments

Our capital commitments relate to property, plant and equipment and acquisition of subsidiaries. The following table sets forth a summary of our capital commitments as at the dates indicated:

Our Group

	As at 31 December			As at 30 April
	2011	2012	2013	2014
	RMB'000	RMB'000	RMB'000	RMB'000
Contracted, but not provided for:				
Property, plant and equipment	3,968	—	—	—
Authorised, but not contracted for:				
Acquisition of subsidiaries	—	143,800	—	—
Total	3,968	143,800	—	—

The following table sets forth our commitments with respect of service concession arrangements as at the dates indicated:

	31 December			As at 30 April
	2011	2012	2013	2014
	RMB'000	RMB'000	RMB'000	RMB'000
Contracted, but not provided for:	<u>285,468</u>	<u>1,094,175</u>	<u>1,167,467</u>	<u>1,079,254</u>
Authorised, but not contracted for:	<u>705,346</u>	<u>486,257</u>	<u>345,120</u>	<u>297,382</u>

Our contracted, but not provided for capital commitments increased by RMB808.7 million in 2012 primarily because of our enhanced market expansion effort, including our Dongying Project. At the same time, our authorised, but not contracted for, amount decreased by RMB219.1 million primarily because we entered into more project agreements prior to the end of 2012.

FINANCIAL INFORMATION

Operating Lease Commitments

During the Track Record Period, we leased a number of properties under operating leases, including office properties in Beijing. The table below sets forth our future minimum lease payments payable under non-cancellable operating leases as at the dates indicated:

	As at 31 December			As at 30 April
	2011	2012	2013	2014
	RMB'000	RMB'000	RMB'000	RMB'000
Within one year	—	1,072	3,010	3,010
In the second to fifth years, inclusive	—	—	5,383	4,379
After five years	—	—	—	—
Total	<u>—</u>	<u>1,072</u>	<u>8,393</u>	<u>7,389</u>

INDEBTEDNESS

Interest-bearing Bank Borrowing

Our bank borrowings during the Track Record Period primarily consisted of short term bank loans and long term bank loans. Our bank loans as at 31 December 2011, 2012 and 2013, and as at 30 April 2014, for the purpose of calculating our indebtedness, were as follows:

Group	Effective interest rate (%)	Maturity	As at 31 December			As at 30 April
			2011	2012	2013	2014
			RMB'000	RMB'000	RMB'000	RMB'000
Current						
Short term bank loans						
- unsecured	5.47-6.30	2012-2014	100,000	100,000	50,000	—
Short term bank loans						
- secured	5.31-7.87	2012-2015	235,000	234,000	265,000	264,000
Current portion of long term bank loans						
- unsecured	6.46-6.88	2014-2015	—	—	13,800	100,300
Current portion of long term bank loans - secured	6.40-8.00	2012-2015	<u>327,412</u>	<u>434,171</u>	<u>456,541</u>	<u>519,561</u>
Total Current Bank Loans			<u>662,412</u>	<u>768,171</u>	<u>785,341</u>	<u>883,861</u>

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Group	Effective interest rate (%)	Maturity	As at 31 December			As at
			2011	2012	2013	30 April
			RMB'000	RMB'000	RMB'000	2014 RMB'000
Non-current						
Long term bank loans						
- unsecured	6.88-7.38	2015-2022	—	—	158,452	66,019
Long term bank loans						
- secured	5.60-8.00	2013-2024	<u>1,006,827</u>	<u>1,415,632</u>	<u>1,643,596</u>	<u>2,002,947</u>
Total Non-current Bank						
Loans			<u>1,006,827</u>	<u>1,415,632</u>	<u>1,802,048</u>	<u>2,068,966</u>
Total			<u>1,669,239</u>	<u>2,183,803</u>	<u>2,587,389</u>	<u>2,952,827</u>

The above bank borrowings are all denominated in RMB. Our current bank borrowings bore effective interest rates ranging from 5.3% to 8.0% per annum for secured bank loans and 5.5% to 6.3% per annum for unsecured bank loans. For non-current secured bank loans, the effective interest rate ranged from 5.6% to 8.0%. For non-current unsecured bank loans, the effective interest rate ranged from 6.9% to 7.4%.

As at 31 December 2013, RMB117.7 million of our bank borrowings were secured by our investment in Beijing Chang Sheng.

Our outstanding balance of loans and other borrowings as at 31 December 2011, 2012 and 2013 was approximately RMB1,669.2 million, RMB2,183.8 million and RMB2,587.4 million, respectively. As at 31 December 2013, our bank loans were repayable within three months to ten years and were secured by our financial receivables, property, plant and equipment, investment properties and trade and bills receivables. Except for bank loans that we intend to repay with proceeds from the Offering (“CMB loans”), all guarantees provided by our Group’s related parties will be released before listing. For details of the CMB loans, please refer to “Future Plans and Use of Proceeds — Use of Proceeds”. We do not think it is necessary to release our Group’s related parties’ guarantees for our CMB loans before Listing because (i) we believe we generally have sufficient cash and cash equivalents on hand to repay our CMB loans, (ii) such loans shall be repaid shortly after the completion of Listing with proceeds raised from this offering and (iii) our financial independence and ability to raise funds for further development would not be adversely affected by the continuance of the guarantees provided by our Group’s related parties.

As at 30 April 2014, we had unutilised banking facilities of approximately RMB6,330 million. Of our RMB6,330 million unutilised banking facilities as at that date, RMB4,500 million were unrestricted facilities and the remaining RMB1,830 million were restricted facilities, which are limited to be utilised on investments in wastewater treatment projects only. Most of our loan agreements provide that without the bank’s prior written consent, our project company cannot conduct reorganisations, mergers, consolidations, change of equity holders, change of business model, transfer or sale of major assets, investments, guarantees, substantial increase of debt or other actions that may

FINANCIAL INFORMATION

affect our ability to repay the loan. In addition, certain breaches, misrepresentations or defaults by, or an insolvency of, us or our subsidiaries could trigger an event of default under these financing agreements. Furthermore, any acceleration of indebtedness may cause defaults and cross defaults under our current and future financing agreements, as well as significant reductions in our liquidity, and may have a material adverse effect on our business, financial condition, results of operations and prospects. Please see “Risk Factors — Risks Relating to Our Business — We are restricted by covenants in our financing agreements” in this prospectus.

Our ability to obtain external financing in the future and the cost of such financing are subject to a variety of uncertainties, including but not limited to the overall condition of financial markets, potential changes in monetary policies with respect to bank interest rates and lending policy and the performance of our operations. For example, the recent cash crunch in China has resulted in a loss of liquidity and rapid rise of short term lending rates, which impaired the ability of many private enterprises like us to secure sufficient financing on a timely basis and at a reasonable cost. Please see “Risk Factors — Risks Relating to Our Business — We require substantial funding for our projects and our inability to borrow additional amounts or refinance our existing debt at reasonable rates or at all could adversely affect our financial condition and results of operations, and prevent us from fulfilling our financial obligations and business objectives” and “Risk Factors — Risks Relating to Our Business — We finance a substantial portion of our project investments through bank loans and our financing costs and profitability are subject to changes in interest rates and required reserve ratios” in this prospectus.

CONTINGENT LIABILITIES

During the Track Record Period, we did not have significant contingent liabilities. As at the Latest Practicable Date, we are currently not involved in any material legal proceedings, nor are we aware of any pending or potential material legal proceedings involving our Group. If our Group is involved in any material legal proceedings in the future, and based on information then available, it is likely that a loss has been incurred and the amount of the loss can be reasonably estimated, we would then record a contingent liability.

DISCLAIMER

Except as disclosed above, as at 30 April 2014, being the latest practicable date for determining our indebtedness, we did not have any loan capital issued and outstanding or agreed to be issued, bank overdrafts, loans or other similar indebtedness, liabilities under acceptances or acceptable credits, debentures, mortgages, charges, hire purchases commitments, guarantees or other material contingent liabilities.

Our Directors confirm that there has not been any material change in our indebtedness and contingent liabilities since 30 April 2014.

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FINANCIAL RATIOS

	As at 31 December		
	2011	2012	2013
Current Ratio ⁽¹⁾	1.2	1.6	1.4
Quick Ratio ⁽²⁾	1.2	1.6	1.4
Gearing Ratio ⁽³⁾	72.4%	64.6%	67.2%
Return on equity ⁽⁴⁾	27.8%	21.9%	18.8%
Return on total assets ⁽⁵⁾	6.1%	5.9%	5.4%
Interest Coverage Ratio ⁽⁶⁾	2.9	2.7	2.7
Net Profit Margin ⁽⁷⁾	21.3%	19.8%	17.4%
Net Debt to Equity Ratio ⁽⁸⁾	261.9%	182.4%	204.8%

Notes:

- (1) Current ratio is equal to current assets divided by current liabilities as at the end of the period.
- (2) Quick ratio equals our current assets less inventories divided by current liabilities as at the end of the period.
- (3) Gearing ratio equals net debt divided by the sum of net debt and total equity at the end of the period.
- (4) Return on equity represents our profit for the year as a percentage of average total equity for the same period.
- (5) Return on assets represents our profit for the year as a percentage of average total assets for the same period.
- (6) Interest coverage ratio equals our profit for the year before finance costs and income tax divided by finance costs of the same period.
- (7) Net profit margin is equal to our profit for the year divided by our total revenue for the same period.
- (8) Net debt to equity ratio equals net debt divided by total equity as at the end of the period.

Current and Quick Ratio

Our quick ratios were 1.2, 1.6 and 1.4 as at 31 December 2011, 2012 and 2013, respectively. The improvement in both current ratio and quick ratio in 2012 was mainly due to further increase in total equity as a result cash proceeds received from the issue of shares.

Gearing Ratio

Our gearing ratios were 72.4%, 64.6% and 67.2% as at 31 December 2011, 2012 and 2013, respectively. Our gearing ratio decreased from 72.4% as at 31 December 2011 to 64.6% as at 31 December 2012 as a result of the increase in total equity as a result of the issue of shares. Our gearing ratio increased from 64.6% as at 31 December 2012 to 67.2% as at 31 December 2013 primarily because we incurred more bank loans for business development.

Return on Equity

Our return on equity was 27.8%, 21.9% and 18.8% as at 31 December 2011, 2012 and 2013, respectively. Return on equity decreased as at 31 December 2012 primarily because our net profit margin decreased and we issued more shares in 2012. Return on equity decreased as at 31 December 2013 primarily because of further decreases in our net profit margin.

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Return on Assets

Our return on assets was 6.1%, 5.9% and 5.4% as at 31 December 2011, 2012 and 2013, respectively. Return on assets decreased as at 31 December 2012 compared to 31 December 2011 primarily because our net profit margin decreased and our assets increased following the expansion of our business.

Net Profit Margin

Our net profit margin decreased from 19.8% in 2012 to 17.4% in 2013 primarily because of a decrease in our gross profit margin, increase in administrative expenses and increase in income tax as a result of a rise in our effective tax rate. Our net profit margin decreased from 21.3% in 2011 to 19.8% in 2012 primarily because of decreases in our gross profit margin and increases in finance costs.

Net Debt to Equity Ratio

Our net debt to equity ratio increased from 182.4% in 2012 to 204.8% in 2013 primarily because of increases in our interest-bearing bank loans and decreases in our cash and cash equivalents as at 31 December 2013. Our net debt to equity ratio decreased from 261.9% to 182.4% in 2012 primarily due to an increase in total equity as a result of our issue of shares in 2012 in respect of a pre-IPO investment.

RELATED PARTY TRANSACTIONS

With respect to the related parties transactions set out in Note 37 of the Accountants' Report in Appendix I to this prospectus, our Directors confirm that these transactions were conducted on normal commercial terms and were not less favourable to us than terms available to or from Independent Third Parties.

OFF-BALANCE SHEET COMMITMENTS AND ARRANGEMENTS

As at the Latest Practicable Date, we had not entered into any off-balance sheet transactions.

DISTRIBUTABLE RESERVES

As at 31 December 2013, we had distributable reserves of approximately RMB370.6 million which is available for distribution to our equity holders.

DIVIDEND POLICY

The payment and the amount of any dividends, if paid, will depend on the results of operations, cash flows, financial condition, statutory and regulatory restrictions on the payment of dividends by us, future prospects and other factors that we may consider relevant. Holders of the Shares will be entitled to receive such dividends pro rata according to the amounts paid up or credited as paid up on the Shares. The declaration, payment and amount of dividends will be subject to our discretion.

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Dividends may be paid only out of our distributable profits as permitted under the relevant laws. To the extent profits are distributed as dividends, such portion of profits will not be available to be reinvested in our operations. There can be no assurance that we will be able to declare or distribute any dividend in the amount set out in any plan of the Board or at all. The dividend distribution record in the past may not be used as a reference or basis to determine the level of dividends that may be declared or paid by us in the future.

Final dividends proposed by the Directors are classified as a separate allocation of retained profits within the equity section of the statement of financial position, until they have been approved by the shareholders in a general meeting. When these dividends have been approved by the shareholders and declared, they are recognised as a liability.

Interim dividends are simultaneously proposed and declared, because the Company's memorandum and articles of association grant the Directors the authority to declare interim dividends. Consequently, interim dividends are recognised immediately as a liability when they are proposed and declared.

DISCLOSURE REQUIRED UNDER CHAPTER 13 OF THE LISTING RULES

Our Directors have confirmed that, as at the Latest Practicable Date, there are no circumstances which, had we been required to comply with Rules 13.13 to 13.19 in Chapter 13 of the Listing Rules, would have given rise to a disclosure requirement under Rules 13.13 to 13.19 of the Listing Rules.

NO MATERIAL ADVERSE CHANGE

Our Directors confirm that, up to the date of the prospectus, there had been no material adverse change in our financial or trading position since 31 December 2013 and there is no event since 31 December 2013 which would materially affect the information shown in the Accountants' Report.

FINANCIAL INFORMATION

UNAUDITED PRO FORMA ADJUSTED NET TANGIBLE ASSETS

The following is an illustrative and pro forma statement of our adjusted net tangible assets, which has been prepared on the basis of the notes set out below for the purpose of illustrating the effect of the Global Offering as if it had taken place on 31 December 2013. This unaudited pro forma statement of adjusted net tangible assets has been prepared for illustrative purposes only and because of its hypothetical nature, it may not give a true picture of our financial position had the Global Offering been completed as at 31 December 2013 or any future dates.

	Adjusted consolidated net tangible assets attributable to the owners of our Company as at 31 December 2013 ⁽¹⁾	Estimated net proceeds from the Global Offering ⁽²⁾	Unaudited pro forma adjusted consolidated net tangible assets	Unaudited pro forma adjusted net tangible assets per Share ⁽³⁾	
	RMB'000	RMB'000	RMB'000	RMB	HK\$
Based on the Offer Price of HK\$2.00 for each Offer Share	1,339,536	740,862	2,080,398	1.04	1.31
Based on the Offer Price of HK\$2.80 for each Offer Share	1,339,536	1,047,668	2,387,204	1.19	1.50

Notes:

- (1) The adjusted consolidated net tangible assets attributable to our equity shareholders as at 31 December 2013 is extracted from the Accountants' Report set out in Appendix I to this prospectus, which is based on our audited consolidated net assets attributable to our equity shareholders as at 31 December 2013 of RMB1,340,381,000 with an adjustment of deducting the intangible assets as at 31 December 2013 of RMB845,000.
- (2) The estimated net proceeds from the Global Offering are based on an indicative Offer Price of HK\$2.00 (equivalent to RMB1.59) and HK\$2.80 (equivalent to RMB2.23) per Share respectively (after deducting the underwriting fees and other related expenses), and takes no account of any Shares which may be issued pursuant to the Over-allotment Option. For the purpose of the estimated net proceeds from the Global Offering, the translation of RMB into HK dollars was made at the rate of RMB0.7949 to HK\$1, the exchange rate prevailing on 6 June 2014 set by PBOC for foreign exchange transactions.
- (3) The unaudited pro forma net tangible assets per Share is arrived at by dividing the unaudited pro forma adjusted net tangible assets by 2,000,000,000 Shares, being the number of shares in issue assuming that the Global Offering has been completed on 4 July 2014 but takes no account of any Shares which may be issued upon the exercise of the Over-allotment Option.

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are exposed to various types of market risks in the ordinary course of our business, including credit risks, liquidity risks and fluctuations in interest rates. We manage our exposure to these and other market risks through regular operating and financial activities.

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Credit Risk

The carrying amounts of cash and cash equivalents, pledged deposits, trade and bills receivables, financial receivables and financial assets included in prepayments, deposits and other receivables represent our maximum exposure to credit risk in relation to these financial assets. Substantially all of our cash and cash equivalents and pledged deposits are held in major financial institutions located in the PRC and Hong Kong, which our management believes are of high credit quality. We have policies to control the size of the deposits to be placed with various reputable financial institutions according to their market reputation, operating scale and financial background with a view to limiting the amount of credit of credit exposure to any a single financial institution to an acceptable level.

We trade only with recognised and creditworthy third parties. In addition, receivable balances are monitored on an ongoing basis and our Group's exposure to bad debts is not significant.

As our major customers are either PRC Government authorities or agencies at the provincial and local levels or other state-owned enterprises, we believe that they are reliable and of high credit quality and hence, there is no significant credit risk with these customers. Our senior management continuously reviews and assesses the creditworthiness of our existing customers on an ongoing basis. Please see "Risk Factors — Risks Relating to Our Business — We may not be able to secure and execute wastewater treatment projects".

Liquidity Risk

The liquidity of our Group is primarily dependant on our ability to maintain adequate cash inflows from operations to meet debt obligations as they fall due and our ability to obtain external financing to meet committed future capital expenditure. Our policy is to regularly monitor current and expected liquidity requirements by preparing and reviewing monthly cash flow forecasts and our compliance with lending covenants, if any, to ensure that we maintain sufficient reserves of cash on demand and adequate committed lines of funding from major financial institutions to meet our liquidity requirements in the short and longer terms.

No changes were made in the objectives, policies or processes for managing capital during the year ended 31 December 2011 and 2012 and 2013. With regard to our future capital commitments and other financing requirements, as at 30 April 2014, we had already obtained banking facilities with several banks of up to an amount of RMB9,809.9 million, of which an amount of approximately RMB6,330 million had not been utilised.

Our Directors have carried out a detailed review of our cash flow forecast for the period from 1 January 2014 to 30 June 2015. Based on the forecast, our Directors have determined that adequate liquidity exists to finance our working capital and capital expenditure requirements during such period. In preparing the cash flow forecast, our Directors have considered our historical cash requirements as well as other key factors, including cashflow generated from operating activities and the availability of the external loan financing which may impact our operations for such period. Our Directors are of the opinion that the assumptions and sensitivities which are included in the cash flow forecast are reasonable. However, these are subject to inherent limitations and uncertainties and some or all of these assumptions may not be realised.

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Interest Rate Risk

We are exposed to the risk of changes in market interest rates relates primarily to our long term debt obligations with floating interest rates. Our management does not anticipate any significant impact of the changes in market interest rates because most of our borrowings during the Relevant Periods were at fixed interest rates.

We regularly review and monitor the mix of fixed and floating interest rate borrowings in order to manage our interest rate risk. Our interest-bearing bank borrowings, pledged deposits and cash and cash equivalents are stated at amortised cost and are not revalued on a periodic basis. Floating rate interest income and expenses are credited/charged to profit or loss as earned/incurred.

If there were a general increase/decrease in market interest rates by one percentage point, with all other variables held constant, our consolidated pre-tax profit would have decreased/increased by approximately RMB13.2 million, RMB20.4 million, and RMB23.3 million for the years ended 31 December 2011, 2012 and 2013, respectively, and there would be no impact on other components of the consolidated equity, except for our retained profits. The sensitivity analysis above has been determined assuming that the change in market interest rates had occurred at the end of each of the Relevant Periods and had applied the exposure to interest rate risk to those financial instruments in existence at those dates. The estimated one percentage point increase or decrease represents management's assessment of a reasonably possible change in market interest rates over the period until the next annual year end.

FUTURE PLANS AND USE OF PROCEEDS

FUTURE PLANS

Please refer to the section headed “Business — Our Strategies” in this prospectus for a detailed discussion of our future plans.

USE OF PROCEEDS

We estimate that we will receive net proceeds of approximately HK\$1,104.2 million from the Global Offering, assuming that the Over-allotment Option is not exercised, after deducting the underwriting commissions and other estimated offering expenses payable by us and assuming the initial Offer Price of HK\$2.40 per Share, being the mid-point of the indicative Offer Price range set forth on the cover page of this prospectus. If the Over-allotment Option is exercised in full, we estimate that our additional net proceeds from the offering of these additional Shares will be approximately HK\$193.0 million, after deducting the underwriting commissions and our estimated expenses, assuming an Offer Price of HK\$2.40 per Share.

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

- approximately 65%, or HK\$717.8 million, is expected to be used primarily for expanding our business and project portfolio, including:
 - approximately 35%, or HK\$386.5 million, is expected to be used to expand our project portfolio, in particular, BOT projects and TOT projects, including expansion and upgrade projects, in China, to take advantage of PRC Government’s plan to expand investments in wastewater treatment facilities; and
 - approximately 30%, or HK\$331.3 million, is expected to be used to acquire other potential suitable wastewater treatment facilities that we believe can increase our aggregate wastewater treatment capacity and allow us to access new markets and establish local customer relationships, which will complement our existing business and provide us attractive rates of return. As at the Latest Practicable Date, we had not entered into any letter of intent or agreement for such acquisition nor identified any definite acquisition target;
- approximately 20%, or HK\$220.8 million, is expected to be used for repayment of existing short-term bank borrowings, the details of which are set forth below:

<u>Lender</u>	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Loan Purpose</u>
China Merchants Bank	7.38%	11 September 2014	Working capital
China Merchants Bank	7.38%	29 November 2014	Working capital
China Merchants Bank	7.38%	22 May 2015	Working capital

FUTURE PLANS AND USE OF PROCEEDS

- approximately 10%, of HK\$110.4 million, is expected to be used to fund our working capital and general corporate purposes; and
- approximately 5%, or HK\$55.2 million, is expected to be used to purchase relevant electronic equipment and software to improve and upgrade our information technology systems, including the implementation of relevant applications such as the ERP system, to facilitate our business expansion and our management of increased number of projects.

To the extent that the net proceeds from the Global Offering are not immediately applied to the above purposes, we intend to deposit the proceeds into interest-bearing bank accounts, such as demand deposit accounts, with licenced commercial banks and/or authorised financial institutions in Hong Kong.

If the Offer Price is set at the high-end or low-end of the proposed Offer Price range and the Over-allotment Option is not exercised at all, the net proceeds of the Global Offering will increase approximately HK\$193.0 million or decrease approximately HK\$193.0 million respectively. In the event of an increase in the net proceeds, we intend to use such increased proceeds towards the expansion of our project portfolio. If our net proceeds decreases as described above, our net proceeds for expanding our business and project portfolio will be decreased.

If the Over-allotment Option is exercised in full, the net proceeds from the Global Offering will increase to approximately HK\$1,277.9 million, assuming an Offer Price of HK\$2.40 per Share, being the mid-point of the proposed Offer Price range. If the Offer Price is set at the high-end or low-end of the proposed Offer Price range, the net proceeds of the Global Offering (including the proceeds from the exercise of the Over-allotment Option) will increase approximately HK\$221.9 million or decrease approximately HK\$221.9 million, respectively. We intend to apply the additional net proceeds to the expansion of our project portfolio as described above. If our net proceeds decreases as described above, our net proceeds for expanding our business and project portfolio will be decreased.

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Joint Global Coordinators and Joint Bookrunners

Macquarie Capital Securities Limited

ICBC International Capital Limited

Joint Lead Managers

Macquarie Capital Securities Limited

ICBC International Securities Limited

UNDERWRITING ARRANGEMENTS AND EXPENSES

Hong Kong Public Offering

Hong Kong Underwriting Agreement

The Hong Kong Underwriting Agreement was entered into on 20 June 2014. Pursuant to the Hong Kong Underwriting Agreement, we are offering the Public Offer Shares for subscription by the public in Hong Kong at the Offer Price on the terms and subject to the conditions of this prospectus and the Application Forms.

Subject to the Listing Committee granting listing of, and permission to deal in, our Shares in issue and 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 to certain other conditions set out in the Hong Kong Underwriting Agreement, the Hong Kong Underwriters have agreed severally but not jointly or jointly and severally to subscribe or procure subscribers for their respective applicable proportions of the Public Offer Shares which are being offered but are not taken up under the Hong Kong Public Offering on the terms and subject to the conditions of this prospectus, the Application Forms and the Hong Kong Underwriting Agreement.

The Hong Kong Underwriting Agreement is conditional upon and subject to the International Purchase Agreement having been signed and becoming unconditional and not having been terminated in accordance with its terms.

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Grounds for termination

The Joint Global Coordinators (for themselves and on behalf of the Hong Kong Underwriters) shall be entitled by notice to our Company to terminate the Hong Kong Underwriting Agreement with immediate effect if at any time prior to 8:00 a.m. on the Listing Date:

- (1) there has come to the notice of the Joint Global Coordinators or any of the Hong Kong Underwriters after the date of the Hong Kong Underwriting Agreement:
 - (i) any breach of, or any matter or event rendering untrue, incorrect, inaccurate or misleading in any respect, any of the warranties under the Hong Kong Underwriting Agreement or the International Purchase Agreement; or
 - (ii) any material breach of any of the obligations or undertakings imposed upon any party to the Hong Kong Underwriting Agreement or the International Purchase Agreement (other than upon any of the Hong Kong Underwriters or the International Purchasers); or
 - (iii) that any statement contained in any of this prospectus, the Application Forms and/or in any notices, announcements, post hearing information pack, advertisements, communications or other documents issued or used by or on behalf of the Company in connection with the Hong Kong Public Offering or the Global Offering (including any supplement or amendment thereto) was, when it was issued, or has or may become, untrue, incorrect, inaccurate or misleading in any respect, or that any estimate/forecast, expression of opinion, intention or expectation contained in any of this prospectus, the Application Forms and/or any notices, announcements, post hearing information pack, advertisements, communications or other documents issued or used by or on behalf of the Company in connection with the Hong Kong Public Offering or the Global Offering (including any supplement or amendment thereto) is not fair and honest and based on reasonable assumptions with reference to the facts and circumstances then subsisting; or
 - (iv) that any matter has arisen or has been discovered which would or might, had it arisen or been discovered immediately before the date of this prospectus, constitute a misstatement or omission from any of this prospectus, the Application Forms, post hearing information pack and/or in any notices, announcements, advertisements, communications or other documents issued or used by or on behalf of the Company in connection with the Hong Kong Public Offering or the Global Offering (including any supplement or amendment thereto); or
 - (v) any matter, event, act or omission which gives or is likely to give rise to any liability of the Company or the Controlling Shareholders or the executive Directors out of or in connection with any breach, inaccuracy and/or incorrectness of the warranties under the Hong Kong Underwriting Agreement or the International Purchase Agreement and/or pursuant to the indemnities given by any of the indemnifying parties pursuant to the Hong Kong Underwriting Agreement or the International Purchase Agreement; or

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- (vi) any material adverse change or development involving a prospective material adverse change in the assets, liabilities, business, general affairs, management, prospects, shareholders' equity, profits, losses, results of operations, position or condition, financial or otherwise, or performance of our Group as a whole, whether or not arising in the ordinary course of business, as determined by the Joint Global Coordinators in their absolute discretion; or
 - (vii) approval by the Listing Committee of the Stock Exchange of the listing of, and permission to deal in, the Shares to be issued or sold (including any additional Shares that may be issued or sold pursuant to the exercise of the Over-allotment Option) under the Global Offering is refused or not granted on or before the Listing Date, or if granted, the approval is subsequently withdrawn, qualified (other than by customary conditions) or withheld; or
 - (viii) the Company withdraws this prospectus (and/or any other documents issued or used in connection with the Global Offering) or the Global Offering; or
 - (ix) Ernst & Young as the reporting accountant, Commerce & Finance Law Offices as the legal advisers to the Company on PRC law, Conyers Dill & Pearman (Cayman) Limited as the legal advisers to the Company on Cayman Islands law in relation to the Global Offering or Frost & Sullivan as the independent industry consultant, 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
 - (x) a material portion of the orders in the bookbuilding process or the investment commitments by any cornerstone investors after signing of agreements with such cornerstone investors, have been withdrawn, terminated or cancelled, and the Joint Global Coordinators, in their absolute discretion, concludes that it is therefore inadvisable or inexpedient or impracticable to proceed with the Global Offering; or
- (2) there shall have developed, occurred, happened or come into effect:
- (i) any change or development involving a prospective change in, or any event or series of events resulting or likely to result in any change or development involving a prospective change or development, in local, national, regional or international financial, economic, political, military, industrial, fiscal, legal, regulatory, currency, credit or market conditions or exchange control or any monetary or trading settlement system (including, without limitation, conditions in the stock and bond markets, money and foreign exchange markets, the interbank markets and credit markets or 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 the Renminbi is linked to any foreign currency or currencies), in or affecting Hong Kong, the PRC, the United States, the United Kingdom, the European Union (or any member thereof), Japan, the Cayman Islands or the British Virgin Islands, or any other jurisdiction relevant to any member of our Group (each a “**Relevant Jurisdiction**”); or

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- (ii) any new law or regulation or any change, development or announcement or publication involving a prospective change in existing law or regulations, or any change, development or announcement or publication involving a prospective change in the interpretation or application thereof by any court or other competent authority in or affecting any of the Relevant Jurisdictions; or
- (iii) the imposition or declaration of:
 - (i) any moratorium, suspension, restriction or limitation (including, without limitation, any imposition of or requirement for any minimum or maximum price limit or price range) in or on trading in shares or securities generally on the Stock Exchange, the New York Stock Exchange, the American Stock Exchange, the NASDAQ Global Market, the London Stock Exchange, the Tokyo Stock Exchange, the Shanghai Stock Exchange or the Shenzhen Stock Exchange; or
 - (ii) any general moratorium on commercial banking activities or foreign exchange trading or securities settlement or clearance services in Hong Kong, New York, London, the PRC, the European Union (or any member thereof), Japan, the Cayman Islands, the British Virgin Islands or any other Relevant Jurisdiction, or any disruption in commercial banking or foreign exchange trading or securities settlement or clearance services, procedures or matters in those places or jurisdictions; or
- (iv) a change or development involving a prospective change in taxation or exchange control, currency exchange rates or foreign investment regulations (including, without limitation, a material devaluation of the Hong Kong dollar or the Renminbi against any foreign currencies), or the implementation of any exchange control, in any Relevant Jurisdiction; or
- (v) any litigation, or claim, or investigation or actions being announced, threatened or instigated against any Group company or the Controlling Shareholders or the executive Directors; or
- (vi) a demand by any tax authority for payment for any tax liability for any member of our Group; or
- (vii) any adverse change or development involving a prospective adverse change (whether permanent or not) in the assets, liabilities, conditions, business affairs, prospects (financial or otherwise), earnings, profits, losses or financial or trading position of or our Group taken as a whole, or
- (viii) the imposition of economic sanctions or withdrawal of trading privileges, in whatever form, directly or indirectly, by, or for, any Relevant Jurisdiction; or
- (ix) an 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

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- (x) the chairman, chief executive officer or chief financial officer of the Company vacating his or her office; or
- (xi) the commencement by any administrative, governmental or regulatory commission, board, body, authority or agency, or any stock exchange, self-regulatory organization or other non-governmental regulatory authority, or any court, tribunal or arbitrator, in each case whether national, central, federal, provincial, state, regional, municipal, local, domestic, foreign or supranational (“Authority”) of any investigation, claim, proceedings or other action, or announcing an intention to investigate or take such action, against any executive Director; or
- (xii) a contravention by any Group company of the Listing Rules or applicable laws, rules or regulations; or
- (xiii) a prohibition on the Company for whatever reason from offering, allotting, issuing or selling any of the Shares (including the Over-allotment Option Shares) pursuant to the terms of the Global Offering; or
- (xiv) non-compliance of this prospectus (or any other documents used in connection with the contemplated offering, allotment, issue, subscription or sale of any of the Shares) or any aspect of the Global Offering with the Listing Rules or any other applicable law or regulation; or
- (xv) other than with the approval of the Joint Global Coordinators, the issue or requirement to issue by the Company of any supplement or amendment to this prospectus (or to any other documents used in connection with the contemplated offering, allotment, issue, subscription or sale of any of the Shares) pursuant to the Cap. 32 Companies (WUMP) Ordinance or the Listing Rules or any requirement or request of the Stock Exchange and/or the SFC; or
- (xvi) any event or series of events in the nature of force majeure, including, without limitation, acts of government, declaration of a national or international emergency, calamity, crisis, labour disputes, strikes, lock-outs, riots, public disorder, fire, explosion, flooding, earthquake, civil commotion, acts of war, acts of God, acts of terrorism (whether or not responsibility has been claimed), outbreak of diseases or epidemics or pandemics including, but not limited to, Severe Acute Respiratory Syndromes (SARS), H1N1 and H5N1 and such related/mutated forms or accident or interruption or delay in transportation, economic sanction and 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; or
- (xvii) any change or prospective change in, or a materialisation of, any of the risks set out in the section headed “Risk Factors” in this prospectus; or

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- (xviii) order or petition for the winding up or liquidation of any Group company or any composition, compromise or arrangement made by any Group company with its creditors or a scheme of arrangement entered into by any Group company or any resolution for the winding up or liquidation of any Group company is passed or the appointment of a provisional liquidator, receiver or manager over all or part of the assets or undertaking of any member of our Group or anything analogous thereto occurring in respect of any member of our Group; or
- (xix) a demand by any creditor for repayment or payment of any of our Group's indebtednesses prior to its stated maturity; or,

which, individually or in the aggregate, in the absolute opinion of the Joint Global Coordinators (for themselves and on behalf of the Hong Kong Underwriters)

- (i) has or will or may have or is likely to have a material adverse effect, whether directly or indirectly, on the assets, liabilities, business, general affairs, management, prospects, shareholders' equity, profits, losses, results of operations, position or condition, financial or otherwise, or performance of our Group as a whole; or
- (ii) has or will or may have or is likely to have a material adverse effect on the success of the Global Offering or the level of applications under the Hong Kong Public Offering or the level of interest under the International Placing or dealings in the Offer Shares in the secondary market; or
- (iii) makes or will or may make or is likely to make it inadvisable or inexpedient or impracticable for any material part of Hong Kong Underwriting Agreement, or for any part of the Hong Kong Public Offering or the Global Offering to be performed or implemented or proceed as envisaged or to market the Global Offering or to deliver the Offer Shares on the terms and in the manner contemplated by this prospectus; or
- (iv) has or will or may have the effect of making any part of Hong Kong Underwriting Agreement (including underwriting) incapable of performance in accordance with its terms or preventing the processing of applications and/or payments pursuant to the Global Offering or pursuant to the underwriting thereof.

Undertakings to the Stock Exchange pursuant to the Listing Rules

By Our Company

Pursuant to Rule 10.08 of the Listing Rules, we have undertaken to the Stock Exchange that no further Shares or securities convertible into our equity securities (whether or not of a class already listed) may be issued by us or form the subject of any agreement to such an issue by us within six months from the Listing Date (the "First Six-Month Period") (whether or not such issue of Shares or securities will be completed within six months from the commencement of dealing), except pursuant to the Global Offering (including pursuant to the exercise of the Over-allotment Option), any exercise of the options which may be granted under the Share Option Scheme or any of the circumstances prescribed by Rule 10.08 of the Listing Rules.

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By Our Controlling Shareholders

Pursuant to Rule 10.07(1), each of our Controlling Shareholders has undertaken to the Stock Exchange that, except pursuant to (i) the Global Offering, (ii) any sale of Shares by the Controlling Shareholders pursuant to any exercise of the Over-allotment Option, or (iii) the Stock Borrowing Agreement, he/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/its shareholding in our Company is made in this prospectus and ending on the expiration date of the First Six-Month Period, dispose of, or enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, any of those Shares or securities of our Company in respect of which he/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 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/it would cease to be our controlling shareholder (as defined in the Listing Rules).

Each of our Controlling Shareholders has also undertaken to the Stock Exchange and us that, within the period commencing on the date by reference to which disclosure of his/its shareholding in our Company is made in this prospectus and ending on the date which is 12 months from the Listing Date, he/it will:

- (a) when he/it pledges or charges any Shares or other securities of our Company beneficially owned by him/it in favour of an authorised institution (as defined in the Banking Ordinance (Chapter 155 of the Laws of Hong Kong)) pursuant to Note (2) to Rule 10.07(2) of the Listing Rules, immediately inform us of such pledge or charge together with the number of such Shares or other securities so pledged or charged; and
- (b) when he/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 the Controlling Shareholders 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 the Controlling Shareholders.

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Undertakings to the Hong Kong Underwriters

Pursuant to the Hong Kong Underwriting Agreement, the Company, our Controlling Shareholders and the Investor have undertaken as follows.

Undertakings by Our Company

Except for the offer and sale of the Offer Shares pursuant to the Global Offering (including pursuant to the Over-allotment Option) and the issue of Shares pursuant to the Capitalisation Issue and the Share Option Scheme, during the period commencing on the date of the Hong Kong Underwriting Agreement and ending on, and including, the date of the expiry of the First Six-Month Period, we have undertaken to each of the Joint Global Coordinators, the Joint Sponsors, the Joint Bookrunners, the Joint Lead Managers and the Hong Kong Underwriters not to, and to procure each Group company not to, without the prior written consent of the Joint Global Coordinators (for themselves and on behalf of the Joint Sponsors, the Joint Bookrunners, the Joint Lead Managers and the Hong Kong Underwriters) and unless in compliance with the requirements of the Listing Rules:

- (a) allot, issue, sell, accept subscription for, offer to allot, issue or sell, contract or agree to allot, issue or sell, mortgage, charge, pledge, hypothecate, lend, grant or sell any option, warrant, contract or right to subscribe for or purchase, grant or purchase any option, warrant, contract or right to allot, issue or sell, or otherwise transfer or dispose of or create any mortgage, charge, pledge, lien, or other security interest or any option, restriction, right of first refusal, right of pre-emption, defect, or other third party claim, right, interest or preference or any other encumbrance of any kind (“Encumbrance”) over, either directly or indirectly, conditionally or unconditionally, any Shares or any other securities of our Company or any shares or other securities of such other Group company, as applicable, or any interest in any of the foregoing (including, without limitation, any securities convertible into or exchangeable or exercisable for or that represent the right to receive, or any warrants or other rights to purchase, any Shares or any shares of such other Group company, as applicable), or deposit any Shares or other securities of our Company or any shares or other securities of such other Group company, as applicable, with a depository in connection with the issue of depository receipts; or
- (b) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of Shares or any other securities of our Company or any shares or other securities of such other Group company, as applicable, or any interest in any of the foregoing (including, without limitation, any securities convertible into or exchangeable or exercisable for or that represent the right to receive, or any warrants or other rights to purchase, any Shares or any shares of such Group company, as applicable); or
- (c) enter into any transaction with the same economic effect as any transaction specified in paragraphs (a) or (b) above.
- (d) offer to or agree to or announce any intention to effect any transaction specified in paragraphs (a) or (b) or (c) above,

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in each case, whether any of the transactions specified in paragraphs (a) or (b) or (c) above is to be settled by delivery of Shares or such other securities of our Company or shares or other securities of such Group company, as applicable, or in cash or otherwise (whether or not the issue of Shares or such other securities will be completed within the First Six-Month Period). In the event that, at any time during the Second Six-Month Period, our Company enters into any of the transactions specified in paragraphs (a), (b) or (c) above or offers to or agrees to or announces any intention to effect any such transaction, our Company shall take all reasonable steps to ensure that it will not create a disorderly or false market in the securities of our Company. Each of the Controlling Shareholders has undertaken to each of the Joint Global Coordinators, the Joint Sponsors, the Joint Bookrunners, the Joint Lead Managers and the Hong Kong Underwriters to procure the Company to comply with the undertakings in this paragraph.

Undertakings by the Controlling Shareholders

Each of the Controlling Shareholders has undertaken to our Company, each of the Joint Global Coordinators, the Joint Sponsors, the Joint Bookrunners, the Joint Lead Managers and the Hong Kong Underwriters that, save as to pursuant to any transfer or dispose of Shares to the Investor pursuant to the exchange of Exchangeable Bond and the Stock Borrowing Agreement, without the prior written consent of the Joint Global Coordinators (for themselves and on behalf of the Joint Sponsors, the Joint Bookrunners, the Joint Lead Managers and the Hong Kong Underwriters) and unless in compliance with the requirements of the Listing Rules, none of the Controlling Shareholders will:

- (a) at any time during the First Six-Month Period,
 - i. sell, offer to sell, contract or agree to sell, mortgage, charge, pledge, hypothecate, lend, grant or sell any option, warrant, contract or right to purchase, grant or purchase any option, warrant, contract or right to sell, or otherwise transfer or dispose of or create an Encumbrance over, or agree to transfer or dispose of or create an Encumbrance over, either directly or indirectly, conditionally or unconditionally, any Shares or any other securities of our Company or any interest therein (including, without limitation, any securities convertible into or exchangeable or exercisable for or that represent the right to receive, or any warrants or other rights to purchase, any Shares, as applicable), or deposit any Shares or other securities of the Company with a depositary in connection with the issue of depositary receipts, or
 - ii. (in the case of Mr. Zhao Juanxian and Mr. Zhao Sizhen) transfer, issue, allot or create any Encumbrance over, or otherwise dispose of his direct or indirect interests in Kangda Holdings;
 - iii. enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of Shares or other securities of our Company or any interest therein in (including, without limitation, any securities convertible into or exchangeable or exercisable for or that represent the right to receive, or any warrants or other rights to purchase, any Shares), or

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- iv. enter into any transaction with the same economic effect as any transaction specified in paragraph(a)(i), (ii) or (iii) above, or
 - v. offer to or agree to or announce any intention to effect any transaction specified in paragraph(a)(i), (ii), (iii) or (iv) above, in each case, whether any of the transactions specified in paragraph(a)(i), (ii), (iii) or (iv) above is to be settled by delivery of Shares or such other securities of our Company or in cash or otherwise (whether or not the issue of Shares or such other securities will be completed within the aforesaid period);
- (b) he/it will not, at any time during the Second Six-Month Period, enter into any of the transactions specified in paragraph(a)(i), (ii), (iii) or (iv) above or offer to or agree to or announce any intention to effect any such transaction if, immediately following any sale, transfer or disposal or upon the exercise or enforcement of any option, right, interest or Encumbrance pursuant to such transaction, he/it will cease to be a “controlling shareholder” (as the term is defined in the Listing Rules) of our Company; and
- (c) until the expiry of the Second Six-Month period, in the event that he/it enters into any of the transactions specified in paragraph(a)(i), (ii), (iii) or (iv) above or offer to or agrees to or announce any intention to effect any such transaction, he/it will take all reasonable steps to ensure that he/it will not create a disorderly or false market in the securities of our Company.

Undertakings by the Investor and the Investor Guarantor

The Investor has undertaken to us, each of the Joint Global Coordinators, the Joint Sponsors, the Joint Bookrunners, the Joint Lead Managers and the Hong Kong Underwriters that, without the prior written consent of the Joint Global Coordinators (for themselves and on behalf of the Joint Sponsors, the Joint Bookrunners, the Joint Lead Managers and the Hong Kong Underwriters) and unless in compliance with the requirements of the Listing Rules, the Investor will not, and will procure that none of its Associates will at any time during the First Six-Month Period,

- (a) sell, offer to sell, contract or agree to sell, mortgage, charge, pledge, hypothecate, lend, grant or sell any option, warrant, contract or right to purchase, grant or purchase any option, warrant, contract or right to sell, make short sell or otherwise transfer or dispose of or create an Encumbrance over, or agree to transfer or dispose of or create an Encumbrance over, either directly or indirectly, conditionally or unconditionally, any Shares or any other securities of our Company or any interest therein (including, without limitation, any securities convertible into or exchangeable or exercisable for or that represent the right to receive, or any warrants or other rights to purchase, any Shares, as applicable) (the foregoing restriction is expressly agreed to preclude the Investor from engaging in any hedging or other transactions which is designed to or which reasonably could be expected to lead to or result in a sale or disposition of any Shares even if such Shares would be disposed of by someone other than the Investor, respectively. Such prohibited hedging or other transactions would include without limitation any put or call option with respect to any Shares or with respect to any security that includes, relates to or derives any significant part of its value from such Shares), or

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- (b) enter into any swap, derivative, repurchase, lending, pledge or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of Shares or any such capital or other securities of our Company or any interest therein in (including, without limitation, any securities convertible into or exchangeable or exercisable for or that represent the right to receive, or any warrants or other rights to purchase, any Shares), or
- (c) enter into any transaction with the same economic effect as any transaction specified in paragraph(a) or (b) above, or
- (d) offer to or agree to or announce any intention to effect any transaction specified in paragraph(a), (b) or (c) above, in each case, whether any of the transactions specified in paragraph(a), (b) or (c) above is to be settled by delivery of Shares or such other securities of our Company or shares or other securities of such other Group company, as applicable, or in cash or otherwise (whether or not the issue of Shares or such other securities will be completed within the aforesaid period).

The Investor has further undertaken to us, each of the Joint Global Coordinators, the Joint Sponsors, the Joint Bookrunners, the Joint Lead Managers and the Hong Kong Underwriters that it will, at any time within the period commencing on the date of the Hong Kong Underwriting Agreement and ending on the date which is 6 months after the Listing Date:

- (a) upon any pledge or charge of any Shares or securities or interests in the Shares or other securities of our Company beneficially owned by it, immediately inform us and the Joint Global Coordinators in writing of such pledge or charge together with the number of Shares or securities so pledged or charged; and
- (b) upon any indication received by it, either verbal or written, from any pledgee or chargee that any of the pledged or charged Shares or other securities or interests in the Shares or securities of our Company will be disposed of, immediately inform us and the Joint Global Coordinators in writing of such indications.

The Investor Guarantor has undertaken to us, each of the Joint Global Coordinators, the Joint Sponsors, the Joint Bookrunners, the Joint Lead Managers and the Hong Kong Underwriters that it will not, at any time during the First Six-Month Period transfer, issue, allot, or create any Encumbrance over, or otherwise dispose of its direct or indirect interests in the Investor, unless (A) with the prior written consent of the Company and each of the Joint Global Coordinators, or (B) such transfer is to a subsidiary controlled by the Investor Guarantor.

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Indemnity

We have agreed to indemnify the Hong Kong Underwriters 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 Placing

In connection with the International Placing, it is expected that we will enter into the International Purchase Agreement with the International Purchasers. Under the International Purchase Agreement, subject to the conditions set forth therein, the International Purchasers would severally but not jointly or jointly and severally agree to procure purchasers for or failing which to purchase, the International Placing Shares. It is expected that the International Purchase 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 Purchase Agreement is not entered into, the Global Offering will not proceed.

Over-allotment Option

Under the International Purchase Agreement, our Company is expected to grant to the International Purchasers, exercisable by the Joint Global Coordinators on behalf of the International Purchasers, 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 Saturday, 26 July 2014) to require us to allot and issue up to 75,000,000 additional Shares, representing approximately 15% of the initial Offer Shares, at the same price per Offer Share under the International Placing, to, among other things, cover over-allocations in the International Placing, if any.

Stabilisation and over-allotment option

In connection with the Global Offering, the Stabilising 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 stabilising 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 “Structure of the Global Offering — Stabilisation” in this prospectus for details regarding stabilisation, “Structure of the Global Offering — Over-allotment Option” for over-allocation and “Structure of the Global Offering — Stock Borrowing Agreement” for stock borrowing arrangements in connection with the Global Offering.

Underwriting Commission and Expenses

The Hong Kong Underwriters will receive an underwriting commission of 3% on the Offer Price of the Public Offer Shares initially offered under the Hong Kong Public Offering out of which they will pay any sub-underwriting commission. The International Purchasers will receive an underwriting

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commission of 3% on the Offer Price of the International Placing Shares offered under the International Placing. In addition, we may pay to the Joint Global Coordinators (for their account only) a discretionary incentive fee of up to 0.5% of the Offer Price multiplied by the total number of Offer Shares (subject to the Over-allotment Option).

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\$95.9 million (assuming an Offer Price of HK\$2.4, being the mid-point of the indicative offer price range and assuming that the Over-allotment Option is not exercised) in total and are payable by us.

Hong Kong Underwriters' Interests in Our Company

Save for its obligations under the Hong Kong Underwriting Agreement and as disclosed in this prospectus, none of the Hong Kong Underwriters has 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 Underwriters 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.

Joint Sponsors' Independence

The Joint Sponsors satisfy the independence criteria applicable to sponsors 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 50,000,000 Public Offer Shares (subject to adjustment as mentioned below) in Hong Kong as described below in the paragraph headed “— The Hong Kong Public Offering” below; and
- (ii) the International Placing of an aggregate of 450,000,000 International Placing Shares (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.

Macquarie Capital Securities Limited and ICBC International Capital Limited are the Joint Sponsors, Joint Global Coordinators and Joint Bookrunners of the Global Offering. Macquarie Capital Securities Limited and ICBC International Securities Limited are the Joint Lead Managers of the Global Offering.

Investors may apply for Public Offer Shares under the Hong Kong Public Offering or apply for or indicate an interest for Offer Shares under the International Placing, 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 50,000,000 Offer Shares for subscription by the public in Hong Kong at the Offer Price, representing approximately 10% of the total number of Offer Shares initially available under the Global Offering. Subject to the reallocation of Offer Shares between the International Placing and the Hong Kong Public Offering, the Public Offer Shares will represent approximately 2.5% of our Company’s enlarged issued share capital immediately after completion of the Global Offering, assuming that the Over-allotment Option is not exercised.

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 forth in the paragraph headed “— Conditions of the Hong Kong Public Offering” below.

STRUCTURE OF THE GLOBAL OFFERING

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 Public 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 Public Offer Shares, and those applicants who are not successful in the ballot may not receive any Public 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 Public Offer Shares in pool A will be allocated on an equitable basis to applicants who have applied for Public Offer Shares with an aggregate price of HK\$5 million (excluding the brokerage, SFC transaction levy and the Stock Exchange trading fee payable) or less. The Public Offer Shares in pool B will be allocated on an equitable basis to applicants who have applied for Public 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 Public Offer Shares in one (but not both) of the pools are under-subscribed, the unsubscribed Public 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 Public 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 Public 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 50% Public Offer Shares, being the number of Public Offer Shares initially available under each pool, are liable to be rejected.

Reallocation

The allocation of the Offer Shares between the Hong Kong Public Offering and the International Placing is subject to adjustment under the Listing Rules. 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, the total number of Offer Shares available under the Hong Kong Public Offering will be increased to 150,000,000, 200,000,000 and 250,000,000 Offer Shares, respectively, representing approximately 30% (in the case of (a)), 40% (in the case of (b)) and 50% (in the case of (c)), respectively, of the total number of Offer Shares initially available under the Global Offering (before any exercise of the Over-allotment Option). In such cases, the number of Offer Shares allocated to the International Placing will be correspondingly reduced, in such manner as the Joint Global Coordinators deem appropriate, and such additional Offer Shares will be allocated to pool A and pool B.

The Offer Shares to be offered in the Hong Kong Public Offering and the International Placing may, in certain circumstances, be reallocated as between these offerings at the discretion of the Joint Global Coordinators.

STRUCTURE OF THE GLOBAL OFFERING

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 Placing, 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 Placing.

Applicants under the Hong Kong Public Offering are required to pay, on application, the maximum price of HK\$2.80 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 maximum price of HK\$2.80 per Offer Share, appropriate refund payments (including the brokerage, SFC transaction levy and Stock Exchange trading fee attributable to the surplus application monies) will be made to successful applicants, without interest. Please refer to the section headed “How to Apply for Public Offer Shares” in this prospectus for further details.

THE INTERNATIONAL PLACING

Number of Offer Shares Initially Offered

We are initially offering 450,000,000 Offer Shares under the International Placing, representing approximately 90% of the total number of Offer Shares initially available under the Global Offering. The International Placing is subject to the Hong Kong Public Offering becoming unconditional. Subject to the reallocation of Offer Shares between the International Placing and the Hong Kong Public Offering, the International Placing 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 Placing 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 Placing 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.

STRUCTURE OF THE GLOBAL OFFERING

The Joint Global Coordinators (on behalf of the Underwriters) may require any investor who has been offered Offer Shares under the International Placing and who has made an application under the Hong Kong Public Offering to provide sufficient information to the Joint Global Coordinators so as to allow them 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 intend to grant the Over-allotment Option to the International Purchasers, exercisable by the Joint Global Coordinators on behalf of the International Purchasers.

Pursuant to the Over-allotment Option, the International Purchasers have the right, exercisable by the Joint Global Coordinators (on behalf of the International Purchasers) within 30 days from the last day for lodging of applications under the Hong Kong Public Offering (the last day for the exercise of the Over-allotment Option being Saturday, 26 July 2014, to require us to allot and issue up to 75,000,000 additional Offer Shares representing approximately 15% of the initial Offer Shares, at the same price per Offer Share under the International Placing, to, among other things, cover over-allocations in the International Placing, if any. If the Over-allotment Option is exercised in full, the additional Offer Shares will represent approximately 3.61% of our enlarged issued share capital immediately following completion of the Global Offering and the exercise of the Over-allotment Option. In the event that the Over-allotment Option is exercised, an announcement will be made.

STOCK BORROWING AGREEMENT

For the purpose of covering any over-allocations, the Stabilising Manager may borrow from Kangda Holdings up to 75,000,000 Shares, equivalent to the maximum number of Shares to be issued on a full exercise of the Over-allotment Option, under the Stock Borrowing Agreement expected to be entered into between the Stabilising Manager and Kangda Holdings on or about Friday, 27 June 2014. The loan of Shares by Kangda Holdings pursuant to the Stock Borrowing Agreement shall not be subject to the restrictions under Rule 10.07(1)(a) of the Listing Rules, which restricts the disposal of Shares by the controlling shareholders of our Company subsequent to the date of this prospectus, subject to compliance with the following requirements in accordance with the requirements of Rule 10.07(3) of the Listing Rules:

- (i) the Stock Borrowing Agreement is fully described in the prospectus and will be for the sole purpose of covering any short position prior to the exercise of the Over-allotment Option in connection with the International Placing;
- (ii) the maximum number of Shares which may be borrowed from Kangda Holdings must not exceed the maximum number of Shares which may be issued upon full exercise of the Over-allotment Option;
- (iii) the same number of Shares so borrowed must be returned to Kangda Holdings or its nominees, as the case may be, on or before the third Business Day following the earlier of (a) the last day for exercising the Over-allotment Option, and (b) the date on which the Over-allotment Option is exercised in full;

STRUCTURE OF THE GLOBAL OFFERING

- (iv) the borrowing of Shares pursuant to the Stock Borrowing Agreement will be effected in compliance with all applicable Listing Rules, laws and other regulatory requirements; and
- (v) no payment will be made to Kangda Holdings by the Stabilising Manager in relation to such Stock Borrowing Agreement.

STABILISATION

Stabilisation is a practice used by underwriters in some markets to facilitate the distribution of securities. To stabilise, the underwriters may bid for, or purchase, the newly issued securities in the secondary market, during a specified period of time, to retard and, if possible, prevent a decline in the initial public market price of the securities below the offer price. Such transactions may be effected in all jurisdictions where it is permissible to do so, in each case in compliance with all applicable laws and regulatory requirements including those of Hong Kong. In Hong Kong, the stabilisation price will not exceed the initial public offer price.

In connection with the Global Offering, the Stabilising Manager (or its affiliates or any person acting for it) as stabilising 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 stabilising 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. However, there is no obligation on the Stabilising Manager, its affiliates or any persons acting for it, to conduct any such stabilising action. Such stabilisation action, if commenced, may be discontinued at any time, and is required to be brought to an end after a limited period. Should stabilising transactions be effected in connection with the Global Offering, this will be at the absolute discretion of the Stabilising Manager, its affiliates or any person acting for it. The number of Shares over-allocated will not be greater than the maximum number of Shares which may be issued upon exercise of the Over-allotment Option, being 75,000,000 Shares, which is approximately 15% of the Offer Shares initially available under the Global Offering.

Stabilisation action permitted in Hong Kong pursuant to the Securities and Futures (Price Stabilizing) Rules, as amended, includes (i) over-allocating for the purpose of preventing or minimising any reduction in the market price of the Shares, (ii) selling or agreeing to sell the Shares so as to establish a short position in them for the purpose of preventing or minimising any reduction in the market price of the Shares, (iii) purchasing or subscribing for, or agreeing to purchase or subscribe for, the Shares pursuant to the Over-allotment Option in order to close out any position established under (i) or (ii) above, (iv) purchasing, or agreeing to purchase, any of the Shares for the sole purpose of preventing or minimising any reduction in the market price of the Shares, (v) selling or agreeing to sell any Shares in order to liquidate any position established as a result of those purchases and (vi) offering or attempting to do anything as described in (ii), (iii), (iv) or (v) above.

Specifically, prospective applicants for and investors in the Offer Shares should note that:

- the Stabilising Manager, its affiliates or any person acting for it, may, in connection with the stabilising action, maintain a long position in the Shares;
- there is no certainty regarding the extent to which and the time or period for which the Stabilising Manager, its affiliates or any person acting for it, will maintain such a long position;

STRUCTURE OF THE GLOBAL OFFERING

- liquidation of any such long position by the Stabilising Manager, its affiliates or any person acting for it, may have a material and adverse impact on the market price of the Shares;
- no stabilising action can be taken to support the price of the Shares for longer than the stabilising period which will begin on the Listing Date, and is expected to expire on Saturday, 26 July 2014, being the 30th day after the last date for lodging applications under the Hong Kong Public Offering. After this date, when no further stabilising action may be taken, demand for the Shares, and therefore the price of the Shares, could fall;
- the price of the Shares cannot be assured to stay at or above the Offer Price by the taking of any stabilising action; and
- stabilising bids may be made or transactions may be effected in the course of the stabilising action at any price at or below the Offer Price, which means that stabilising bids may be made or transactions may be effected at a price below the price paid by applicants for, or investors in, the Shares.

PRICING AND ALLOCATION

The International Purchasers will be soliciting from prospective investors indications of interest in acquiring Offer Shares in the International Placing. Prospective professional and institutional investors will be required to specify the number of Offer Shares under the International Placing 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.

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 Friday, 27 June 2014, and in any event on or before Wednesday, 2 July 2014, by agreement between the Joint Global Coordinators (on behalf of the Underwriters) and our Company and the number of Offer Shares to be allocated under various offerings will be determined shortly thereafter.

The Offer Price will not be more than HK\$2.80 per Offer Share and is expected to be not less than HK\$2.00 per Offer Share unless otherwise announced, as further explained below, not later than the morning of the last day for lodging applications under the Hong Kong Public Offering. **Prospective investors should be aware that the Offer Price to be determined on the Price Determination Date may be, but is not expected to be, lower than the indicative offer price range stated in this prospectus.**

The Joint Global Coordinators, 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 offered in the Global Offering 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

STRUCTURE OF THE GLOBAL OFFERING

for lodging applications under the Hong Kong Public Offering, cause there to be published in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) and on the websites of the Stock Exchange at www.hkex.news.hk and our Company at www.kangdaep.com notices of the reduction. Upon issue of such a notice, the number of Offer Shares offered in the Global Offering and/or the revised offer price range will be final and conclusive and the Offer Price, if agreed upon by the Joint Global Coordinators (on behalf of the Underwriters) and our Company, will be fixed within such revised offer price range. Applicants should have regard to the possibility that any announcement of a reduction in the number of Offer Shares being offered under the Global Offering and/or the indicative offer price range may not be made until the day which is the last day for lodging applications under the Hong Kong Public Offering. Such notice will also include confirmation or revision, as appropriate, of the working capital statement 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 and/or the Offer Price, if agreed upon with our Company and the Joint Global Coordinators (on behalf of the Underwriters), will under no circumstances be set outside the offer price range as stated in this prospectus.

In the event of a reduction in the number of Offer Shares being offered under the Global Offering, the Joint Global Coordinators may at their discretion reallocate the number of Offer Shares to be offered under the Hong Kong Public Offering and the International Placing, 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 Placing 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 Joint Global Coordinators.

The final Offer Price, 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 Thursday, 3 July 2014 in the manner set forth in the section headed “How to Apply for Public Offer Shares — Publication of Results” in this prospectus.

The net proceeds from the Global Offering accruing to us (after deduction of underwriting fees and estimated expenses payable by us in relation to the Global Offering, assuming that the Over-allotment Option is not exercised), are estimated to be approximately HK\$1,104.2 million, assuming an Offer Price of HK\$2.40 per Offer Share, being the mid-point of the indicative offer price range (or if the Over-allotment Option is exercised in full, approximately HK\$1,277.9 million, assuming an Offer Price of HK\$2.40 per Offer Share, being the mid-point of the indicative offer price range.)

STRUCTURE OF THE GLOBAL OFFERING

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 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 any Shares which may be issued pursuant to the exercise of any options which may be granted under the Share Option Scheme;
- (ii) the Offer Price having been duly agreed between us and the Joint Global Coordinators (on behalf of the Underwriters) and the execution and delivery of the price determination agreement on or around the Price Determination Date;
- (iii) the execution and delivery of the International Purchase Agreement on or around the Price Determination Date; and
- (iv) the obligations of the Hong Kong Underwriters under the Hong Kong Underwriting Agreement and the obligations of the International Purchasers under the International Purchase 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 Purchase 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 Wednesday, 23 July 2014, being the 30th day after the date of this prospectus.

If, for any reason, the Offer Price is not agreed between our Company and the Joint Global Coordinators (on behalf of the Underwriters) on or before Wednesday, 2 July 2014, the Global Offering will not proceed.

The consummation of each of the Hong Kong Public Offering and the International Placing 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 Public Offer Shares — Dispatch/Collection of Share Certificates and Refund Monies” in this prospectus. In the meantime, all application monies will be held in separate bank account(s) with the receiving bankers or other bank(s) in Hong Kong licenced under the Banking Ordinance (Chapter 155 of the Laws of Hong Kong) (as amended).

STRUCTURE OF THE GLOBAL OFFERING

Share certificates for the Offer Shares will only become valid 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.

Application for Listing on the Stock Exchange

We have applied to the Listing Committee for the granting of the listing of, and permission to deal in, the Shares in issue and to be issued pursuant to the Global Offering (including any Shares which may be issued under the exercise of the Over-allotment Option) and any Shares which may be issued under the Share Option Scheme on the Main Board of the Stock Exchange.

Shares Will Be Eligible For CCASS

All necessary arrangements have been made enabling the Shares to be admitted into CCASS established and operated by the HKSCC. If the Stock Exchange grants the listing of, and permission to deal in, the Shares and our Company complies 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.

Dealing

Assuming that the Hong Kong Public Offering becomes unconditional at or before 8:00 a.m. in Hong Kong on Friday, 4 July 2014, it is expected that dealings in the Shares on the Stock Exchange will commence at 9:00 a.m. on Friday, 4 July 2014.

The Shares will be traded in board lots of 1,000 Shares each and the stock code of the Shares will be 6136.

HOW TO APPLY FOR PUBLIC OFFER SHARES

1. HOW TO APPLY

If you apply for Public Offer Shares, then you may not apply for or indicate an interest for International Placing Shares.

To apply for Public Offer Shares, you may:

- use a WHITE or YELLOW Application Form;
- apply online via the White Form eIPO Service at www.eipo.com.hk; or
- electronically cause HKSCC Nominees to apply on your behalf.

None of you or your joint applicant(s) may make more than one application, except where you are a nominee and provide the required information in your application.

The Company, the Joint Global Coordinators, the White Form eIPO Service Provider and their respective agents may reject or accept any application in full or in part for any reason at their discretion.

2. WHO CAN APPLY

You can apply for Public Offer Shares on a WHITE or YELLOW Application Form if you or the person(s) for whose benefit you are applying:

- are 18 years of age or older;
- have a Hong Kong address;
- are outside the United States, and are not a United States Person (as defined in Regulation S under the U.S. Securities Act); and
- are not a legal or natural person of the PRC.

If you apply online through the White Form eIPO Service Provider, in addition to the above, you must also: (i) have a valid Hong Kong identity card number and (ii) provide a valid e-mail address and a contact telephone number.

If you are a firm, the application must be in the individual members' names. If you are a body corporate, the application form must be signed by a duly authorised officer, who must state his representative capacity, and stamped with your corporation's chop.

If an application is made by a person under a power of attorney, the Joint Global Coordinators may accept it at their discretion and on any conditions they think fit, including evidence of the attorney's authority.

HOW TO APPLY FOR PUBLIC OFFER SHARES

The number of joint applicants may not exceed four and they may not apply by means of White Form eIPO service for the Public Offer Shares.

Unless permitted by the Listing Rules, you cannot apply for any Public Offer Shares if you are:

- an existing beneficial owner of Shares in the Company and/or any its subsidiaries;
- a Director or chief executive officer of the Company and/or any of its subsidiaries;
- an associate (as defined in the Listing Rules) of any of the above;
- a connected person (as defined in the Listing Rules) of the Company or will become a connected person of the Company immediately upon completion of the Global Offering; and
- have been allocated or have applied for any International Placing Shares or otherwise participate in the International Placing.

3. APPLYING FOR PUBLIC OFFER SHARES

Which Application Channel to Use

For Public Offer Shares to be issued in your own name, use a WHITE Application Form or apply online through www.eipo.com.hk.

For Public Offer Shares to be issued in the name of HKSCC Nominees and deposited directly into CCASS to be credited to your or a designated CCASS Participant's stock account, use a YELLOW Application Form or electronically instruct HKSCC via CCASS to cause HKSCC Nominees to apply for you.

Where to Collect the Application Forms

You can collect a WHITE Application Form and a copy of this prospectus during normal business hours between 9:00 a.m. on Monday, 23 June 2014 until 12:00 noon on Thursday, 26 June 2014 from:

- (i) any of the following offices of the Joint Bookrunners:

Macquarie Capital Securities Limited	Level 18 One International Finance Centre 1 Harbour View Street Central Hong Kong
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ICBC International Capital Limited	37th Floor ICBC Tower 3 Garden Road Hong Kong
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HOW TO APPLY FOR PUBLIC OFFER SHARES

(ii) any of the branches of the following receiving banks:

	<u>Branch Name</u>	<u>Address</u>
Hong Kong Island	Queen's Road Central Branch	122-126 Queen's Road Central, Central
	Hennessy Road Branch	Shop 2A, G/F & Basement, Cameron Commercial Centre, 468 Hennessy Road, Causeway Bay
	Quarry Bay Branch	Shop SLG1, Sub-Lower Ground Floor, Westlands Gardens, Nos. 2-12, Westlands Road, Quarry Bay
Kowloon	Tsimshatsui East Branch	Shop B, G/F, Railway Plaza, 39 Chatham Road South, Tsimshatsui
	Yaumatei Branch	542 Nathan Road, Yaumatei
	Ngau Tau Kok Branch	Shop Nos. G211-214, G/F, Phase II, Amoy Plaza, 77 Ngau Tau Kok Road
New Territories	Kwai Fong Branch	C63A-C66, 2/F, Kwai Chung Plaza, Kwai Fong
	Shatin Branch	Shop 22J, Level 3, Shatin Centre

You can collect a YELLOW Application Form and a copy of this prospectus during normal business hours from 9:00 a.m. on Monday, 23 June 2014 until 12:00 noon on Thursday, 26 June 2014 from the Depository Counter of HKSCC at 2nd Floor, Infinitus Plaza, 199 Des Voeux Road Central, Hong Kong or from your stockbroker.

Time for Lodging Application Forms

Your completed WHITE or YELLOW Application Form, together with a cheque or a banker's cashier order attached and marked payable to "ICBC (Asia) Nominee Limited — Kangda International Public Offer" for the payment, should be deposited in the special collection boxes provided at any of the branches of the receiving banks listed above, at the following times:

Monday, 23 June 2014 — 9:00 a.m. to 5:00 p.m.
Tuesday, 24 June 2014 — 9:00 a.m. to 5:00 p.m.
Wednesday, 25 June 2014 — 9:00 a.m. to 5:00 p.m.
Thursday, 26 June 2014 — 9:00 a.m. to 12:00 noon

HOW TO APPLY FOR PUBLIC OFFER SHARES

The application lists will be open from 11:45 a.m. to 12:00 noon on Thursday, 26 June 2014, the last application day or such later time as described in “Effect of Bad Weather on the Opening of the Applications Lists” in this section.

4. TERMS AND CONDITIONS OF AN APPLICATION

Follow the detailed instructions in the Application Form carefully; otherwise, your application may be rejected.

By submitting an Application Form or applying through the White Form eIPO Service Provider, among other things, you:

- (i) undertake to execute all relevant documents and instruct and authorise the Company and/or the Joint Global Coordinators (or their agents or nominees), as agents of the Company, to execute any documents for you and to do on your behalf all things necessary to register any Public Offer Shares allocated to you in your name or in the name of HKSCC Nominees as required by the Articles of Association;
- (ii) agree to comply with the Cap. 32 Companies (WUMP) Ordinance and the Articles of Association;
- (iii) confirm that you have read the terms and conditions and application procedures set out in this prospectus and in the Application Form and agree to be bound by them;
- (iv) confirm that you have received and read this prospectus and have only relied on the information and representations contained in this prospectus in making your application and will not rely on any other information or representations except those in any supplement to this prospectus;
- (v) confirm that you are aware of the restrictions on the Global Offering in this prospectus;
- (vi) agree that none of the Company, the Joint Global Coordinators, the Joint Sponsors, the Joint Bookrunners, the Joint Lead Managers, the Underwriters, their respective directors, officers, employees, partners, agents, advisers and any other parties involved in the Global Offering is or will be liable for any information and representations not in this prospectus (and any supplement to it);
- (vii) undertake and confirm that you or the person(s) for whose benefit you have made the application have not applied for or taken up, or indicated an interest for, and will not apply for or take up, or indicate an interest for, any Offer Shares under the International Placing nor participated in the International Placing;
- (viii) agree to disclose to the Company, our Hong Kong Share Registrar, receiving banks, the Joint Global Coordinators, the Joint Sponsors, the Joint Bookrunners, the Joint Lead Managers, the Underwriters and/or their respective advisers and agents any personal data which they may require about you and the person(s) for whose benefit you have made the application;

HOW TO APPLY FOR PUBLIC OFFER SHARES

- (ix) if the laws of any place outside Hong Kong apply to your application, agree and warrant that you have complied with all such laws and none of the Company, the Joint Global Coordinators, the Joint Sponsors, the Joint Bookrunners, the Joint Lead Managers and the Underwriters nor any of their respective officers or advisers will breach any law outside Hong Kong as a result of the acceptance of your offer to purchase, or any action arising from your rights and obligations under the terms and conditions contained in this prospectus and the Application Form;
- (x) agree that once your application has been accepted, you may not rescind it because of an innocent misrepresentation;
- (xi) agree that your application will be governed by the laws of Hong Kong;
- (xii) represent, warrant and undertake that (i) you understand that the Public Offer Shares have not been and will not be registered under the U.S. Securities Act; and (ii) you and any person for whose benefit you are applying for the Public Offer Shares are outside the United States (as defined in Regulation S) or are a person described in paragraph (h)(3) of Rule 902 of Regulation S;
- (xiii) warrant that the information you have provided is true and accurate;
- (xiv) agree to accept the Public Offer Shares applied for, or any lesser number allocated to you under the application;
- (xv) authorise the Company to place your name(s) or the name of the HKSCC Nominees, on the Company's register of members as the holder(s) of any Public Offer Shares allocated to you, and the Company and/or its agents to send any share certificate(s) and/or any e-Refund payment instructions and/or any refund cheque(s) to you or the first-named applicant for joint application by ordinary post at your own risk to the address stated on the application, unless you have chosen to collect the share certificate(s) and/or refund cheque(s) in person;
- (xvi) declare and represent that this is the only application made and the only application intended by you to be made to benefit you or the person for whose benefit you are applying;
- (xvii) understand that the Company and the Joint Global Coordinators will rely on your declarations and representations in deciding whether or not to make any allotment of any of the Public Offer Shares to you and that you may be prosecuted for making a false declaration;
- (xviii) (if the application is made for your own benefit) warrant that no other application has been or will be made for your benefit on a WHITE or YELLOW Application Form or by giving electronic application instructions to HKSCC or to the White Form eIPO Service Provider by you or by any one as your agent or by any other person; and

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- (xix) (if you are making the application as an agent for the benefit of another person) warrant that
- (i) no other application has been or will be made by you as agent for or for the benefit of that person or by that person or by any other person as agent for that person on a WHITE or YELLOW Application Form or by giving electronic application instructions to HKSCC; and
 - (ii) you have due authority to sign the Application Form or give electronic application instructions on behalf of that other person as their agent.

Additional Instructions for Yellow Application Form

You may refer to the Yellow Application Form for details.

5. APPLYING THROUGH WHITE FORM eIPO

General

Individuals who meet the criteria in “Who can apply” section, may apply through the White Form eIPO Service Provider for the Public Offer Shares to be allotted and registered in their own names through the designated website at www.eipo.com.hk.

Detailed instructions for application through the White Form eIPO Service Provider are on the designated website. If you do not follow the instructions, your application may be rejected and may not be submitted to the Company. If you apply through the designated website, you authorise the White Form eIPO Service Provider to apply on the terms and conditions in this prospectus, as supplemented and amended by the terms and conditions of the White Form eIPO Service Provider.

Time for Submitting Applications under the White Form eIPO

You may submit your application to the White Form eIPO Service Provider at www.eipo.com.hk (24 hours daily, except on the last application day) from 9:00 a.m. on Monday, 23 June 2014 until 11:30 a.m. on Thursday, 26 June 2014 and the latest time for completing full payment of application monies in respect of such applications will be 12:00 noon on Thursday, 26 June 2014 or such later time under the “Effects of Bad Weather on the Opening of the Applications Lists” in this section.

No Multiple Applications

If you apply by means of White Form eIPO, once you complete payment in respect of any electronic application instruction given by you or for your benefit through the White Form eIPO Service Provider to make an application for Public Offer Shares, an actual application shall be deemed to have been made. For the avoidance of doubt, giving an electronic application instruction under White Form eIPO more than once and obtaining different application reference numbers without effecting full payment in respect of a particular reference number will not constitute an actual application.

If you are suspected of submitting more than one application through the White Form eIPO Service Provider or by any other means, all of your applications are liable to be rejected.

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Section 40 of the CAP.32 Companies (WUMP) Ordinance

For the avoidance of doubt, the Company and all other parties involved in the preparation of this prospectus acknowledge that each applicant who gives or causes to give electronic application instructions is a person who may be entitled to compensation under Section 40 of the Cap.32 Companies (WUMP) Ordinance (as applied by Section 342E of the Cap.32 Companies (WUMP) Ordinance).

Environmental Protection

The obvious advantage of **White Form eIPO** is to save the use of paper via the self-serviced and electronic application process. Computershare Hong Kong Investor Services Limited, being the **White Form eIPO** Service Provider, will contribute HK\$2.00 for each “KANGDA INTERNATIONAL ENVIRONMENTAL COMPANY 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).

6. APPLYING BY GIVING ELECTRONIC APPLICATION INSTRUCTIONS TO HKSCC VIA CCASS

General

CCASS Participants may give electronic application instructions to apply for the Public Offer Shares and to arrange payment of the money due on application and payment of refunds under their participant agreements with HKSCC and the General Rules of CCASS and the CCASS Operational Procedures.

If you are a CCASS Investor Participant, you may give these electronic application instructions through the CCASS Phone System by calling 2979-7888 or through the CCASS Internet System <https://ip.ccass.com> (using the procedures in HKSCC’s “An Operating Guide for Investor Participants” in effect from time to time).

HKSCC can also input electronic application instructions for you if you go to:

Hong Kong Securities Clearing Company Limited
Customer Service Center
2/F Infinitus Plaza
199 Des Voeux Road Central
Hong Kong

and complete an input request form.

You can also collect a copy of this prospectus from this address.

HOW TO APPLY FOR PUBLIC OFFER SHARES

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 Public Offer Shares on your behalf.

You will be deemed to have authorised HKSCC and/or HKSCC Nominees to transfer the details of your application to the Company, the Joint Global Coordinators and our Hong Kong Share Registrar.

Giving Electronic Application Instructions to HKSCC via CCASS

Where you have given electronic application instructions to apply for the Public Offer Shares and a WHITE Application Form is signed by HKSCC Nominees on your behalf:

- (i) HKSCC Nominees will only be acting as a nominee for you and is not liable for any breach of the terms and conditions of the WHITE Application Form or this prospectus;
- (ii) HKSCC Nominees will do the following things on your behalf:
 - agree that the Public Offer Shares to be allotted shall be issued in the name of HKSCC Nominees and deposited directly into CCASS for the credit of the CCASS Participant's stock account on your behalf or your CCASS Investor Participant's stock account;
 - agree to accept the Public Offer Shares applied for or any lesser number allocated;
 - undertake and confirm that you have not applied for or taken up, will not apply for or take up, or indicate an interest for, any International Placing Shares;
 - declare that only one set of electronic application instructions has been given for your benefit;
 - (if you are an agent for another person) declare that you have only given one set of electronic application instructions for the other person's benefit and are duly authorised to give those instructions as their agent;
 - confirm that you understand that the Company, the Directors and the Joint Global Coordinators will rely on your declarations and representations in deciding whether or not to make any allotment of any of the Public Offer Shares to you and that you may be prosecuted if you make a false declaration;
 - authorise the Company to place HKSCC Nominees' name on the Company's register of members as the holder of the Public Offer Shares allocated to you and to send share certificate(s) and/or refund monies under the arrangements separately agreed between us and HKSCC;

HOW TO APPLY FOR PUBLIC OFFER SHARES

- confirm that you have read the terms and conditions and application procedures set out in this prospectus and agree to be bound by them;
- confirm that you have received and/or read a copy of this prospectus and have relied only on the information and representations in this prospectus in causing the application to be made, save as set out in any supplement to this prospectus;
- agree that none of the Company, the Joint Global Coordinators, the Joint Sponsors, the Joint Bookrunners, the Joint Lead Managers, the Underwriters, their respective directors, officers, employees, partners, agents, advisers and any other parties involved in the Global Offering, is or will be liable for any information and representations not contained in this prospectus (and any supplement to it);
- agree to disclose your personal data to the Company, our Hong Kong Share Registrar, receiving banks, the Joint Global Coordinators, the Joint Sponsors, the Joint Bookrunners, the Joint Lead Managers, the Underwriters and/or its respective advisers and agents;
- agree (without prejudice to any other rights which you may have) that once HKSCC Nominees' application has been accepted, it cannot be rescinded for innocent misrepresentation;
- agree that any application made by HKSCC Nominees on your behalf is irrevocable before the fifth day after the time of the opening of the application lists (excluding any day which is Saturday, Sunday or public holiday in Hong Kong), such agreement to take effect as a collateral contract with us and to become binding when you give the instructions and such collateral contract to be in consideration of the Company agreeing that it will not offer any Public Offer Shares to any person before the fifth day after the time of the opening of the application lists (excluding any day which is Saturday, Sunday or public holiday in Hong Kong), except by means of one of the procedures referred to in this prospectus. However, HKSCC Nominees may revoke the application before the fifth day after the time of the opening of the application lists (excluding for this purpose any day which is a Saturday, Sunday or public holiday in Hong Kong) if a person responsible for this prospectus under Section 40 of the Cap.32 Companies (WUMP) Ordinance gives a public notice under that section which excludes or limits that person's responsibility for this prospectus;
- agree that once HKSCC Nominees' application is accepted, neither that application nor your electronic application instructions can be revoked, and that acceptance of that application will be evidenced by the Company's announcement of the Hong Kong Public Offering results;
- agree to the arrangements, undertakings and warranties under the participant agreement between you and HKSCC, read with the General Rules of CCASS and the CCASS Operational Procedures, for giving electronic application instructions to apply for Public Offer Shares;

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- agree with the Company, for itself and for the benefit of each Shareholder (and so that the Company will be deemed by its acceptance in whole or in part of the application by HKSCC Nominees to have agreed, for itself and on behalf of each of the Shareholders, with each CCASS Participant giving electronic application instructions) to observe and comply with the CAP.32 Companies (WUMP) Ordinance and the Articles of Association; and
- agree that your application, any acceptance of it and the resulting contract will be governed by the laws of Hong Kong.

Effect of Giving Electronic Application Instructions to HKSCC via CCASS

By giving electronic application instructions to HKSCC or instructing your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give such instructions to HKSCC, you (and, if you are joint applicants, each of you jointly and severally) are deemed to have done the following things. Neither HKSCC nor HKSCC Nominees shall be liable to the Company or any other person in respect of the things mentioned below:

- instructed and authorised HKSCC to cause HKSCC Nominees (acting as nominee for the relevant CCASS Participants) to apply for the Public Offer Shares on your behalf;
- instructed and authorised HKSCC to arrange payment of the maximum Offer Price, brokerage, SFC transaction levy and the Stock Exchange trading fee by debiting your designated bank account and, in the case of a wholly or partially unsuccessful application and/or if the Offer Price is less than the maximum Offer Price per Offer Share initially paid on application, refund of the application monies (including brokerage, SFC transaction levy and the Stock Exchange trading fee) by crediting your designated bank account; and
- instructed and authorised HKSCC to cause HKSCC Nominees to do on your behalf all the things stated in the WHITE Application Form and in this prospectus.

Minimum Purchase Amount and Permitted Numbers

You may give or cause your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give electronic application instructions for a minimum of 1,000 Public Offer Shares. Instructions for more than 1,000 Public Offer Shares must be in one of the numbers set out in the table in the Application Forms. No application for any other number of Public Offer Shares will be considered and any such application is liable to be rejected.

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Time for Inputting Electronic Application Instructions

CCASS Clearing/Custodian Participants can input electronic application instructions at the following times on the following dates:

Monday, 23 June, 2014 — 9:00 a.m. to 8:30 p.m. ⁽¹⁾
Tuesday, 24 June, 2014 — 8:00 a.m. to 8:30 p.m. ⁽¹⁾
Wednesday, 25 June, 2014 — 8:00 a.m. to 8:30 p.m. ⁽¹⁾
Thursday, 26 June, 2014 — 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 Monday, 23 June 2014 until 12:00 noon on Thursday, 26 June 2014 (24 hours daily, except on the last application day).

The latest time for inputting your electronic application instructions will be 12:00 noon on Thursday, 26 June 2014, the last application day or such later time as described in “Effect of Bad Weather on the Opening of the Application Lists” in this section.

No Multiple Applications

If you are suspected of having made multiple applications or if more than one application is made for your benefit, the number of Public Offer Shares applied for by HKSCC Nominees will be automatically reduced by the number of Public Offer Shares for which you have given such instructions and/or for which such instructions have been given for your benefit. Any electronic application instructions to make an application for the Public Offer Shares given by you or for your benefit to HKSCC shall be deemed to be an actual application for the purposes of considering whether multiple applications have been made.

Section 40 of the Cap.32 Companies (WUMP) Ordinance

For the avoidance of doubt, the Company and all other parties involved in the preparation of this prospectus acknowledge that each CCASS Participant who gives or causes to give electronic application instructions is a person who may be entitled to compensation under Section 40 of the Cap.32 Companies (WUMP) Ordinance (as applied by Section 342E of the Cap.32 Companies (WUMP) Ordinance).

Personal Data

The section of the Application Form headed “Personal Data” applies to any personal data held by the Company, the Hong Kong Share Registrar, the receiving bankers, the Joint Global Coordinators, the Underwriters and any of their respective advisers and agents about you in the same way as it applies to personal data about applicants other than HKSCC Nominees.

HOW TO APPLY FOR PUBLIC OFFER SHARES

7. WARNING FOR ELECTRONIC APPLICATIONS

The subscription of the Public Offer Shares by giving electronic application instructions to HKSCC is only a facility provided to CCASS Participants. Similarly, the application for Public Offer Shares through the White Form eIPO is also only a facility provided by the White Form eIPO Service Provider to public investors. Such facilities are subject to capacity limitations and potential service interruptions and you are advised not to wait until the last application day in making your electronic applications. The Company, the Directors, the Joint Bookrunners, the Joint Sponsors, the Joint Global Coordinators and the Underwriters take no responsibility for such applications and provide no assurance that any CCASS Participant or person applying through the White Form eIPO Service Provider will be allotted any Public Offer Shares.

To ensure that CCASS Investor Participants can give their electronic application instructions, they are advised not to wait until the last minute to input their instructions to the systems. In the event that CCASS Investor Participants have problems in the connection to CCASS Phone System/CCASS Internet System for submission of electronic application instructions, they should either (i) submit a WHITE or YELLOW Application Form, or (ii) go to HKSCC's Customer Service Centre to complete an input request form for electronic application instructions before 12:00 noon on Thursday, 26 June 2014.

8. HOW MANY APPLICATIONS CAN YOU MAKE

Multiple applications for the Public Offer Shares are not allowed except by nominees. If you are a nominee, in the box on the Application Form marked "For nominees" you must include:

- an account number; or
- some other identification code,

for each beneficial owner or, in the case of joint beneficial owners, for each joint beneficial owner. If you do not include this information, the application will be treated as being made for your benefit.

All of your applications will be rejected if more than one application on a WHITE or YELLOW Application Form or by giving electronic application instructions to HKSCC or through the White Form eIPO Service Provider, is made for your benefit (including the part of the application made by HKSCC Nominees acting on electronic application instructions). If an application is made by an unlisted company and:

- the principal business of that company is dealing in securities; and
- you exercise statutory control over that company,

then the application will be treated as being for your benefit.

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“Unlisted company” means a company with no equity securities listed on the Stock Exchange. “Statutory control” means you:

- control the composition of the board of directors of the company;
- control more than half of the voting power of the company; or
- hold more than half of the issued share capital of the company (not counting any part of it which carries no right to participate beyond a specified amount in a distribution of either profits or capital).

9. HOW MUCH ARE THE PUBLIC OFFER SHARES

The WHITE and YELLOW Application Forms have tables showing the exact amount payable for the Shares.

You must pay the maximum Offer Price, brokerage, SFC transaction levy and the Stock Exchange trading fee in full upon application for Shares under the terms set out in the Application Forms.

You may submit an application using a WHITE or YELLOW Application Form or through the White Form eIPO Service Provider in respect of a minimum of 1,000 Public Offer Shares. Each application or electronic application instruction in respect of more than 1,000 Public Offer Shares must be in one of the numbers set out in the table in the Application Form, or as otherwise specified on the designated website at www.eipo.com.hk.

If your application is successful, brokerage will be paid to the Exchange Participants (as defined in the Listing Rules), and the SFC transaction levy and the Stock Exchange trading fee are paid to the Stock Exchange (in the case of the SFC transaction levy, collected by the Stock Exchange on behalf of the SFC).

For further details on the Offer Price, please see the section headed “Structure of the Global Offering - Pricing and Allocation” in this prospectus.

10. EFFECT OF BAD WEATHER ON THE OPENING OF THE APPLICATION LISTS

The application lists will not open if there is:

- a tropical cyclone warning signal number 8 or above; or
- a “black” rainstorm warning,

in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Thursday, 26 June 2014. 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.

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If the application lists do not open and close on Thursday, 26 June 2014 or if there is a tropical cyclone warning signal number 8 or above or a “black” rainstorm warning signal in force in Hong Kong that may affect the dates mentioned in the section headed “Expected Timetable”, an announcement will be made in such event.

11. PUBLICATION OF RESULTS

The Company expects to announce the final Offer Price, the level of indication of interest in the International Placing, the level of applications in the Hong Kong Public Offering and the basis of allocation of the Public Offer Shares on or before Thursday, 3 July 2014 in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) and at the Company’s website at www.kangdaep.com and the website of the Stock Exchange at www.hkexnews.hk.

The results of allocations and the Hong Kong identity card/passport/Hong Kong business registration numbers of successful applicants under the Hong Kong Public Offering will be available at the times and date and in the manner specified below:

- in the announcement to be posted on the Company’s website at www.kangdaep.com and the Stock Exchange’s website at www.hkexnews.hk by no later than 9:00 a.m. on Thursday, 3 July 2014;
- from the designated results of allocations website at www.iporesults.com.hk with a “search by ID” function on a 24-hour basis from 8:00 a.m. on Thursday, 3 July 2014 to 12:00 midnight on Wednesday, 9 July 2014;
- by telephone enquiry line by calling 2862 8669 between 9:00 a.m. and 10:00 p.m. from Thursday, 3 July 2014 to Sunday, 6 July 2014;
- in the special allocation results booklets which will be available for inspection during opening hours from Thursday, 3 July 2014 to Saturday, 5 July 2014 at all the receiving bank branches and sub-branches.

If the Company accepts your offer to purchase (in whole or in part), which it may do by announcing the basis of allocations and/or making available the results of allocations publicly, there will be a binding contract under which you will be required to purchase the Public Offer Shares if the conditions of the Global Offering are satisfied and the Global Offering is not otherwise terminated. Further details are contained in the section headed “Structure of the Global Offering”.

You will not be entitled to exercise any remedy of rescission for innocent misrepresentation at any time after acceptance of your application. This does not affect any other right you may have.

HOW TO APPLY FOR PUBLIC OFFER SHARES

12. CIRCUMSTANCES IN WHICH YOU WILL NOT BE ALLOTTED PUBLIC OFFER SHARES

You should note the following situations in which the Public Offer Shares will not be allotted to you:

(i) If your application is revoked:

By completing and submitting an Application Form or giving electronic application instructions to HKSCC or to the White Form eIPO Service Provider, you agree that your application or the application made by HKSCC Nominees on your behalf cannot be revoked on or before the fifth day after the time of the opening of the application lists (excluding for this purpose any day which is Saturday, Sunday or public holiday in Hong Kong). This agreement will take effect as a collateral contract with the Company.

Your application or the application made by HKSCC Nominees on your behalf may only be revoked on or before such fifth day if a person responsible for this prospectus under Section 40 of the Cap.32 Companies (WUMP) Ordinance (as applied by Section 342E of the Cap.32 Companies (WUMP) Ordinance) gives a public notice under that section which excludes or limits that person's responsibility for this prospectus.

If any supplement to this prospectus is issued, applicants who have already submitted an application will be notified that they are required to confirm their applications. If applicants have been so notified but have not confirmed their applications in accordance with the procedure to be notified, all unconfirmed applications will be deemed revoked.

If your application or the application made by HKSCC Nominees on your behalf has been accepted, it cannot be revoked. For this purpose, acceptance of applications which are not rejected will be constituted by notification in the press of the results of allocation, and where such basis of allocation is subject to certain conditions or provides for allocation by ballot, such acceptance will be subject to the satisfaction of such conditions or results of the ballot respectively.

(ii) If the Company or its agents exercise their discretion to reject your application:

The Company, the Joint Global Coordinators, the White Form eIPO Service Provider and their respective agents and nominees have full discretion to reject or accept any application, or to accept only part of any application, without giving any reasons.

(iii) If the allotment of Public Offer Shares is void:

The allotment of Public Offer Shares 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

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- within a longer period of up to six weeks if the Listing Committee notifies the Company of that longer period within three weeks of the closing date of the application lists.

(iv) **If:**

- you make multiple applications or suspected multiple applications;
- you or the person for whose benefit you are applying have applied for or taken up, or indicated an interest for, or have been or will be placed or allocated (including conditionally and/or provisionally) Public Offer Shares and International Placing Shares;
- your Application Form is not completed in accordance with the stated instructions;
- your electronic application instructions through the White Form eIPO Service Provider are not completed in accordance with the instructions, terms and conditions on the designated website;
- your payment is not made correctly or the cheque or banker's cashier order paid by you is dishonoured upon its first presentation;
- the Underwriting Agreements do not become unconditional or are terminated;
- the Company or the Joint Global Coordinators believe that by accepting your application, it or they would violate applicable securities or other laws, rules or regulations; or
- your application is for more than 50% of the Public Offer Shares initially offered under the Hong Kong Public Offering.

13. REFUND OF APPLICATION MONIES

If an application is rejected, not accepted or accepted in part only, or if the Offer Price as finally determined is less than the maximum Offer Price of HK\$2.80 per Offer Share (excluding brokerage, SFC transaction levy and the Stock Exchange trading fee thereon), or if the conditions of the Hong Kong Public Offering are not fulfilled in accordance with "Structure of the Global Offering - Conditions of the Global Offering" in this prospectus or if any application is revoked, the application monies, or the appropriate portion thereof, together with the related brokerage, SFC transaction levy and the Stock Exchange trading fee, will be refunded, without interest or the cheque or banker's cashier order will not be cleared.

Any refund of your application monies will be made on Thursday, 3 July 2014.

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14. DESPATCH/COLLECTION OF SHARE CERTIFICATES AND REFUND MONIES

You will receive one share certificate for all Public Offer Shares allotted to you under the Hong Kong Public Offering (except pursuant to applications made on YELLOW Application Forms or by electronic application instructions to HKSCC via CCASS where the share certificates will be deposited into CCASS as described below).

No temporary document of title will be issued in respect of the Shares. No receipt will be issued for sums paid on application. If you apply by WHITE or YELLOW Application Form, subject to personal collection as mentioned below, the following will be sent to you (or, in the case of joint applicants, to the first-named applicant) by ordinary post, at your own risk, to the address specified on the Application Form:

- share certificate(s) for all the Public Offer Shares allotted to you (for YELLOW Application Forms, share certificates will be deposited into CCASS as described below); and
- refund cheque(s) crossed “Account Payee Only” in favour of the applicant (or, in the case of joint applicants, the first-named applicant) for (i) all or the surplus application monies for the Public Offer Shares, wholly or partially unsuccessfully applied for; and/or (ii) the difference between the Offer Price and the maximum Offer Price per Offer Share paid on application in the event that the Offer Price is less than the maximum Offer Price (including brokerage, SFC transaction levy and the Stock Exchange trading fee but without interest). Part of the Hong Kong identity card number/ passport number, provided by you or the first-named applicant (if you are joint applicants), may be printed on your refund cheque, if any. Your banker may require verification of your Hong Kong identity card number/passport number before encashment of your refund cheque(s). Inaccurate completion of your Hong Kong identity card number/passport number may invalidate or delay encashment of your refund cheque(s).

Subject to arrangement on dispatch/collection of share certificates and refund monies as mentioned below, any refund cheques and share certificates are expected to be posted on or around Thursday, 3 July 2014. The right is reserved to retain any share certificate(s) and any surplus application monies pending clearance of cheque(s) or banker’s cashier’s order(s).

Share certificates will only become valid at 8:00 a.m. on Friday, 4 July 2014 provided that the Global Offering has become unconditional and the right of termination described in the “Underwriting” section in this prospectus has not been exercised. Investors who trade shares prior to the receipt of Share certificates or the Share certificates becoming valid do so at their own risk.

Personal Collection

(i) If you apply using a WHITE Application Form

If you apply for 1,000,000 or more Public Offer Shares and have provided all information required by your Application Form, you may collect your refund cheque(s) and/or share certificate(s) from the Hong Kong Share Registrar at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong, from 9:00 a.m. to 1:00 p.m. on Thursday, 3 July 2014 or such other date as notified by us in the newspapers.

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If you are an individual who is eligible for personal collection, you must not authorise any other person to collect for you. If you are a corporate applicant which is eligible for personal collection, your authorised representative must bear a letter of authorisation from your corporation stamped with your corporation's chop. Both individuals and authorised representatives must produce, at the time of collection, evidence of identity acceptable to the Hong Kong Share Registrar.

If you do not collect your refund cheque(s) and/or share certificate(s) personally within the time specified for collection, they will be despatched promptly to the address specified in your Application Form by ordinary post at your own risk.

If you apply for less than 1,000,000 Public Offer Shares, your refund cheque(s) and/or share certificate(s) will be sent to the address on the relevant Application Form on Thursday, 3 July 2014, by ordinary post and at your own risk.

(ii) If you apply using a YELLOW Application Form

If you apply for 1,000,000 Public Offer Shares or more, please follow the same instructions as described above. If you have applied for less than 1,000,000 Public Offer Shares, your refund cheque(s) will be sent to the address on the relevant Application Form on Thursday, 3 July 2014, by ordinary post and at your own risk.

If you apply by using a YELLOW Application Form and your application is wholly or partially successful, your share certificate(s) will be issued in the name of HKSCC Nominees and deposited into CCASS for credit to your or the designated CCASS Participant's stock account as stated in your Application Form on Thursday, 3 July 2014, or upon contingency, on any other date determined by HKSCC or HKSCC Nominees.

- **If you apply through a designated CCASS participant (other than a CCASS Investor Participant)**

For Public Offer Shares credited to your designated CCASS participant's stock account (other than CCASS Investor Participant), you can check the number of Public Offer Shares allotted to you with that CCASS participant.

- **If you are applying as a CCASS Investor Participant**

The Company will publish the results of CCASS Investor Participants' applications together with the results of the Hong Kong Public Offering in the manner described in "Publication of Results" above. You should check the announcement published by the Company and report any discrepancies to HKSCC before 5:00 p.m. on Thursday, 3 July 2014 or any other date as determined by HKSCC or HKSCC Nominees. Immediately after the credit of the Public Offer Shares to your stock account, you can check your new account balance via the CCASS Phone System and CCASS Internet System.

HOW TO APPLY FOR PUBLIC OFFER SHARES

(iii) If you apply through the White Form eIPO Service Provider

If you apply for 1,000,000 Public Offer Shares or more and your application is wholly or partially successful, you may collect your Share certificate(s) from the 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 Thursday, 3 July 2014, or such other date as notified by the Company in the announcement published by the Company as the date of despatch/collection of Share certificates/e-Refund payment instructions/refund cheques.

If you do not collect your Share certificate(s) personally within the time specified for collection, they will be sent to the address specified in your application instructions by ordinary post at your own risk.

If you apply for less than 1,000,000 Public Offer Shares, your Share certificate(s) (where applicable) will be sent to the address specified in your application instructions on Thursday, 3 July 2014 by ordinary post at your own risk.

If you apply and pay the application monies from a single bank account, any refund monies will be despatched to that bank account in the form of e-Refund payment instructions. If you apply and pay the application monies from multiple bank accounts, any refund monies will be despatched to the address as specified in your application instructions in the form of refund cheque(s) by ordinary post at your own risk.

(iv) IF YOU APPLY VIA ELECTRONIC APPLICATION INSTRUCTIONS TO HKSCC

Allocation of Public Offer Shares

For the purposes of allocating Public Offer Shares, HKSCC Nominees will not be treated as an applicant. Instead, each CCASS Participant who gives electronic application instructions or each person for whose benefit instructions are given will be treated as an applicant.

Deposit of Share Certificates into CCASS and Refund of Application Monies

- If your application is wholly or partially successful, your share certificate(s) will be issued in the name of HKSCC Nominees and deposited into CCASS for the credit of your designated CCASS Participant's stock account or your CCASS Investor Participant stock account on Thursday, 3 July 2014, or, on any other date determined by HKSCC or HKSCC Nominees.
- The Company expects to publish the application results of CCASS Participants (and where the CCASS Participant is a broker or custodian, the Company will include information relating to the relevant beneficial owner), your Hong Kong identity card number/passport number or other identification code (Hong Kong business registration number for

HOW TO APPLY FOR PUBLIC OFFER SHARES

corporations) and the basis of allotment of the Hong Kong Public Offering in the manner specified in “Publication of Results” above on Thursday, 3 July 2014. You should check the announcement published by the Company and report any discrepancies to HKSCC before 5:00 p.m. on Thursday, 3 July 2014, or such other date as determined by HKSCC or HKSCC Nominees.

- If you have instructed your broker or custodian to give electronic application instructions on your behalf, you can also check the number of Public Offer Shares allotted to you and the amount of refund monies (if any) payable to you with that broker or custodian.
- If you have applied as a CCASS Investor Participant, you can also check the number of Public Offer Shares allotted to you and the amount of refund monies (if any) payable to you via the CCASS Phone System and the CCASS Internet System (under the procedures contained in HKSCC’s “An Operating Guide for Investor Participants” in effect from time to time) on Thursday, 3 July 2014. Immediately following the credit of the Public Offer Shares to your stock account and the credit of refund monies to your bank account, HKSCC will also make available to you an activity statement showing the number of Public Offer Shares credited to your CCASS Investor Participant stock account and the amount of refund monies (if any) credited to your designated bank account.
- Refund of your application monies (if any) in respect of wholly and partially unsuccessful applications and/or difference between the Offer Price and the maximum Offer Price per Offer Share initially paid on application (including brokerage, SFC transaction levy and the Stock Exchange trading fee but without interest) will be credited to your designated bank account or the designated bank account of your broker or custodian on Thursday, 3 July 2014.

15. ADMISSION OF THE SHARES 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 or any other date HKSCC chooses. Settlement of transactions between Exchange Participants (as defined in the Listing Rules) is required to take place in CCASS on the second Business Day after any trading day.

All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

Investors should seek the advice of their stockbroker or other professional adviser for details of the settlement arrangement as such arrangements may affect their rights and interests.

All necessary arrangements have been made enabling the Shares to be admitted into CCASS.

The following is the text of a report on Kangda International Environmental Company Limited, prepared for the purpose of incorporation in this prospectus, received from the Company's reporting accountants, Ernst & Young, Certified Public Accountants, Hong Kong.



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23 June 2014

The Directors
Kangda International Environmental Company Limited
Macquarie Capital Securities Limited
ICBC International Capital Limited

Dear Sirs,

We set out below our report on the financial information of Kangda International Environmental Company Limited (the “Company”) and its subsidiaries (hereinafter collectively referred to as the “Group”) comprising the consolidated statements of profit or loss and other comprehensive income, statements of changes in equity and statements of cash flows of the Group for each of the years ended 31 December 2011, 2012 and 2013 (the “Relevant Periods”), and the consolidated statements of financial position of the Group and the statements of financial position of the Company as at 31 December 2011, 2012 and 2013, together with the notes thereto (the “Financial Information”) prepared on the basis of presentation set out in note 2.1 of Section II below, for inclusion in the prospectus of the Company dated 23 June 2014 (the “Prospectus”) in connection with the listing of the shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”).

The Company was incorporated on 22 August 2011 as an exempted company with limited liability in the Cayman Islands. Pursuant to a group reorganisation (the “Reorganisation”) as set out in note 1 of Section II below, which was completed on 11 June 2012, the Company became the holding company of the subsidiaries now comprising the Group. Apart from the Reorganisation, the Company has not commenced any business or operation since its incorporation.

As at the date of this report, no statutory financial statements have been prepared for the Company, as it is not subject to statutory audit requirements under the relevant rules and regulations in its jurisdiction of incorporation.

As at the date of this report, the Company has direct and indirect interests in the subsidiaries as set out in note 1 of Section II below. All companies now comprising the Group have adopted 31 December as their financial year end date. The statutory financial statements of the companies now comprising the Group were prepared in accordance with the relevant accounting principles applicable to these companies in the countries in which they were incorporated and/or established. Details of their statutory auditors during the Relevant Periods are set out in note 1 of Section II below.

For the purpose of this report, the directors of the Company (the “Directors”) have prepared the consolidated financial statements of the Group (the “Underlying Financial Statements”) in accordance with the International Financial Reporting Standards (“IFRSs”) issued by the International Accounting Standards Board (“IASB”). The Underlying Financial Statements for each of the years ended 31 December 2011, 2012 and 2013 were audited by us in accordance with International Standards on Auditing issued by the International Auditing and Assurance Standards Board (the “IAASB”).

The Financial Information set out in this report has been prepared from the Underlying Financial Statements with no adjustments made thereon.

Directors’ responsibility

The Directors are responsible for the preparation of the Underlying Financial Statements and the Financial Information that give a true and fair view in accordance with IFRSs, and for such internal control as the Directors determine is necessary to enable the preparation of the Underlying Financial Statements and the Financial Information that are free from material misstatement, whether due to fraud or error.

Reporting accountants’ responsibility

It is our responsibility to form an independent opinion on the Financial Information and to report our opinion thereon to you.

For the purpose of this report, we have carried out procedures on the Financial Information in accordance with Auditing Guideline 3.340 *Prospectuses and the Reporting Accountant* issued by the Hong Kong Institute of Certified Public Accountants.

Opinion in respect of the Financial Information

In our opinion, for the purpose of this report and on the basis of presentation set out in note 2.1 of Section II below, the Financial Information gives a true and fair view of the state of affairs of the Group and the Company as at 31 December 2011, 2012 and 2013, and of the consolidated results and cash flows of the Group for each of the Relevant Periods.

I. FINANCIAL INFORMATION

(A) CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	Section II Notes	Year ended 31 December		
		2011	2012	2013
		RMB'000	RMB'000	RMB'000
REVENUE	6	734,886	999,315	1,339,679
Cost of sales		(396,821)	(557,537)	(826,258)
Gross profit		338,065	441,778	513,421
Other income and gains	7	22,219	10,129	48,455
Selling and distribution expenses		(4,697)	(7,615)	(8,659)
Administrative expenses		(68,283)	(73,631)	(103,906)
Other expenses		(2,381)	(3,692)	(3,939)
Finance costs	9	(99,402)	(133,900)	(167,698)
Share of profit and loss of an associate	19	—	—	4,005
PROFIT BEFORE TAX	8	185,521	233,069	281,679
Income tax expense	12	(28,631)	(35,696)	(49,050)
PROFIT FOR THE YEAR		<u>156,890</u>	<u>197,373</u>	<u>232,629</u>
Other comprehensive income		—	—	—
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		<u>156,890</u>	<u>197,373</u>	<u>232,629</u>
Attributable to:				
Owners of the parent		156,890	196,540	231,563
Non-controlling interests		—	833	1,066
		<u>156,890</u>	<u>197,373</u>	<u>232,629</u>
Earnings per share attributable to ordinary equity holders of the parent - Basic and diluted (RMB)	14	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>

(B) CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	Section II Notes	31 December		
		2011	2012	2013
		RMB'000	RMB'000	RMB'000
NON-CURRENT ASSETS				
Property, plant and equipment	15	68,210	73,016	80,303
Investment properties	16	2,882	2,624	2,366
Investment in an associate	19	—	—	50,393
Intangible assets	17	776	785	845
Prepayments, deposits and other receivables	25	—	67,000	—
Financial receivables	20	1,486,887	1,828,396	2,571,274
Deferred tax assets	21	4,554	4,697	15,449
Total non-current assets		<u>1,563,309</u>	<u>1,976,518</u>	<u>2,720,630</u>
CURRENT ASSETS				
Inventories	22	5,214	5,313	3,108
Construction contracts	23	347,539	387,083	551,325
Financial receivables	20	428,155	541,868	714,398
Trade and bills receivables	24	67,628	220,499	229,362
Prepayments, deposits and other receivables	25	184,557	145,424	80,098
Pledged deposits	26	27,441	56,341	139,324
Cash and cash equivalents	26	245,774	543,754	275,562
Total current assets		<u>1,306,308</u>	<u>1,900,282</u>	<u>1,993,177</u>
CURRENT LIABILITIES				
Trade and bills payables	27	377,077	407,695	537,452
Other payables and accruals	28	26,822	40,011	53,456
Interest-bearing bank borrowings	29	662,412	768,171	785,341
Tax payable		9,783	6,077	4,915
Total current liabilities		<u>1,076,094</u>	<u>1,221,954</u>	<u>1,381,164</u>
NET CURRENT ASSETS		<u>230,214</u>	<u>678,328</u>	<u>612,013</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>1,793,523</u>	<u>2,654,846</u>	<u>3,332,643</u>

APPENDIX I**ACCOUNTANTS' REPORT**

	Section II Notes	31 December		
		2011	2012	2013
		RMB'000	RMB'000	RMB'000
NON-CURRENT LIABILITIES				
Trade and bills payables	27	3,730	4,251	6,440
Interest-bearing bank borrowings	29	1,006,827	1,415,632	1,802,048
Deferred tax liabilities	21	94,379	118,862	171,425
Total non-current liabilities		<u>1,104,936</u>	<u>1,538,745</u>	<u>1,979,913</u>
Net assets		<u>688,587</u>	<u>1,116,101</u>	<u>1,352,730</u>
EQUITY				
Equity attributable to owners of the parent				
Owners' equity		686,137	—	—
Issued capital	30	—	—	—
Reserves	31(a)	—	1,108,818	1,340,381
		686,137	1,108,818	1,340,381
Non-controlling interests		<u>2,450</u>	<u>7,283</u>	<u>12,349</u>
Total equity		<u>688,587</u>	<u>1,116,101</u>	<u>1,352,730</u>

(C) CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Attributable to owners of the parent						Total	Non-controlling interests	Total equity
	Owners' equity	Issued capital	Share premium	Merger reserve	Special reserve	Retained profits			
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000			
As at 1 January 2011	440,991	—	—	—	—	—	440,991	—	440,991
Profit for the year	156,890	—	—	—	—	—	156,890	—	156,890
Other comprehensive income	—	—	—	—	—	—	—	—	—
Total comprehensive income	156,890	—	—	—	—	—	156,890	—	156,890
Capital contribution (note (a))	88,256	—	—	—	—	—	88,256	—	88,256
Capital contribution from a non-controlling shareholder	—	—	—	—	—	—	—	2,450	2,450
As at 31 December 2011 and 1 January 2012	686,137	—	—	—	—	—	686,137	2,450	688,587
Profit for the year (note (c))	57,455	—	—	—	—	139,085	196,540	833	197,373
Other comprehensive income	—	—	—	—	—	—	—	—	—
Total comprehensive income	57,455	—	—	—	—	139,085	196,540	833	197,373
Distribution	(237)	—	—	—	—	—	(237)	—	(237)
Issue of shares of the Company (note (b)) (note 31)	—	—	601,378	—	—	—	601,378	—	601,378
Distribution upon the Reorganisation (note (c))	(375,000)	—	—	—	—	—	(375,000)	—	(375,000)
Transfer to merger reserve upon the Reorganisation (note (c))	(368,355)	—	—	368,355	—	—	—	—	—
Transfer to special reserve (note (d))	—	—	—	—	5,795	(5,795)	—	—	—
Utilisation of special reserve (note (d))	—	—	—	—	(5,795)	5,795	—	—	—
Capital contribution from a non-controlling shareholder	—	—	—	—	—	—	—	4,000	4,000
As at 31 December 2012 and 1 January 2013	—	—	601,378*	368,355*	—*	139,085*	1,108,818	7,283	1,116,101
Profit for the year	—	—	—	—	—	231,563	231,563	1,066	232,629
Other comprehensive income	—	—	—	—	—	—	—	—	—
Total comprehensive income	—	—	—	—	—	231,563	231,563	1,066	232,629
Transfer to special reserve (note (d))	—	—	—	—	12,448	(12,448)	—	—	—
Utilisation of special reserve (note (d))	—	—	—	—	(12,448)	12,448	—	—	—
Capital contribution from a non-controlling shareholder	—	—	—	—	—	—	—	4,000	4,000
As at 31 December 2013	—	—	601,378*	368,355*	—*	370,648*	1,340,381	12,349	1,352,730

* These reserve accounts comprise the consolidated reserves of RMB1,108,818,000 and RMB1,340,381,000 as at 31 December 2012 and 2013, respectively, in the consolidated statements of financial position.

Notes:

- (a) During the year ended 31 December 2011, Chongqing Kangte Environmental Protection Industry Holdings Co., Ltd. (“Chongqing Kangte”), which is controlled by Mr. Zhao Juanxian, and Mr. Zhao Sizhen, the son of Mr. Zhao Juanxian, contributed cash with an aggregate amount of RMB88,256,000 to Chongqing Kangda Environmental Protection Industry (Group) Co., Ltd. (“Chongqing Kangda”), which is wholly owned by Chongqing Kangte.
- (b) Pursuant to the board resolution dated 15 May 2012, Kangda Holdings subscribed the Company’s 9,999 shares with a par value of HK\$0.01 each, amongst which 9,998 shares were issued and fully paid up, with the remaining 1 share issued but nil paid. On 25 May 2012, the Company received HK\$737,164,000, equivalent to RMB601,378,000, as the paid in consideration for such 1 share. The surplus of the amount of the cash injected over the par value of the shares was credited to the equity as share premium.
- (c) As further described in note 2.1 of Section II below, the consolidated statements of profit or loss and other comprehensive income, consolidated statements of financial position, consolidated statements of changes in equity and consolidated statements of cash flows of the Group have been prepared as if the Reorganisation had been completed at the beginning of the Relevant Periods. Upon the completion of the Reorganisation on 11 June 2012, the difference of RMB368,355,000 between (i) the net carrying amount of the assets and liabilities of Chongqing Kangda with an amount of RMB743,355,000 transferred to the Kangda Investment (Hong Kong) Company Limited (“Kangda Hong Kong”) and (ii) the cash of RMB375,000,000 paid by Kangda Hong Kong to Chongqing Kangte, was transferred to the Company’s merger reserve. The then net carrying amount of the net assets and liabilities of Chongqing Kangda included the net profit of RMB57,455,000 attributable to Chongqing Kangda for the period from 1 January 2012 to 11 June 2012. Upon the completion of the Reorganisation as set out in note 1 of Section II, the Company became the holding company of the companies now comprising the Group.
- (d) From 1 February 2011 to 13 February 2012, the Group provided for and utilised the safety production expense fund according to the Interim Measures for the Financial Management of Production Safety Expenses of Enterprises in High-risk Industries (2006 No.478), issued by the Ministry of Finance and the State Administration of Work Safety.
- From 14 February 2012, the Group provided for and utilised safety production expense fund according to Circular on Printing and Issuing the Management Measures on the Enterprises Production Safety Expense of Enterprises Appropriation and Utilisation (2012 No.16), issued by the Ministry of Finance and the State Administration of Work Safety.

(D) CONSOLIDATED STATEMENTS OF CASH FLOWS

	Section II Notes	Year ended 31 December		
		2011	2012	2013
		RMB'000	RMB'000	RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES				
Profit before tax		185,521	233,069	281,679
Adjustments for:				
Finance costs	9	99,402	133,900	167,698
Foreign exchange differences	8	—	2,411	2,661
Share of profit and loss of an associate		—	—	(4,005)
Interest income	7	(9,501)	(2,615)	(3,356)
Depreciation of property, plant and equipment	8,15	3,125	4,018	5,609
Depreciation of investment properties	8,16	258	258	258
Amortisation of intangible assets	8,17	70	87	102
Gains on disposals of items of property, plant and equipment	7	—	—	(20)
Bargain purchase gain on acquisition of subsidiaries	7	—	—	(18,529)
Impairment of trade receivables	8,24	2,381	1,281	1,278
		<u>281,256</u>	<u>372,409</u>	<u>433,375</u>
Decrease/(increase) in inventories		(3,515)	(99)	2,205
Increase in financial receivables		(403,318)	(455,222)	(644,813)
Increase in construction contracts		(77,183)	(39,544)	(164,242)
Decrease/(increase) in trade and bills receivables		(17,746)	(154,152)	14,228
Decrease/(increase) in prepayments, deposits and other receivables		(20,954)	(136,644)	102,768
Increase in trade and bills payables		104,092	31,139	109,423
Increase/(decrease) in other payables and accruals		<u>(2,193)</u>	<u>12,196</u>	<u>(46,189)</u>
Cash used in operations		(139,561)	(369,917)	(193,245)
Interest received	7	2,039	2,615	3,356
Income tax paid		<u>(10,470)</u>	<u>(15,062)</u>	<u>(15,884)</u>
Net cash flows used in operating activities		<u>(147,992)</u>	<u>(382,364)</u>	<u>(205,773)</u>

	Section II Notes	Year ended 31 December		
		2011	2012	2013
		RMB'000	RMB'000	RMB'000
Net cash flows used in operating activities		(147,992)	(382,364)	(205,773)
CASH FLOWS FROM INVESTING ACTIVITIES				
Purchase of items of property, plant and equipment	15	(26,123)	(8,824)	(12,292)
Additions to intangible assets	17	(398)	(96)	(162)
Repayments/(advances) of loans to Chongqing Kangte and its affiliates		(110,059)	145,778	—
Interest income received from Chongqing Kangte and its affiliates	7	7,462	—	—
Proceeds from disposals of items of property, plant and equipment		3	—	155
Acquisition of subsidiaries	32	—	(37,000)	(131,819)
Dividends received from an associate	—	—	—	2,600
Decrease/(increase) in pledged deposits		34,338	(28,900)	(82,983)
Proceeds from disposal of a subsidiary	33	5,883	—	—
Net cash flows from/(used in) investing activities		(88,894)	70,958	(224,501)
CASH FLOWS FROM FINANCING ACTIVITIES				
New bank borrowings		700,475	1,540,996	1,586,902
Repayment of bank borrowings		(451,634)	(1,026,432)	(1,259,616)
Interests paid		(96,303)	(132,908)	(166,543)
Proceeds from issue of shares		—	601,378	—
Proceeds from capital contribution		88,256	—	—
Distribution		—	(237)	—
Payments for distribution upon the Reorganisation		—	(375,000)	—
Capital contribution from the non-controlling shareholders		2,450	4,000	4,000
Net cash flows from financing activities		243,244	611,797	164,743
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS				
Cash and cash equivalents at beginning of year		6,358	300,391	(265,531)
Effect of foreign exchange rate changes, net		239,416	245,774	543,754
CASH AND CASH EQUIVALENTS AT END OF YEAR	26	245,774	543,754	275,562

(E) STATEMENTS OF FINANCIAL POSITION

	Section II Notes	31 December		
		2011	2012	2013
		RMB'000	RMB'000	RMB'000
NON-CURRENT ASSETS				
Investments in subsidiaries	18	—	598,572	598,572
Total non-current assets		—	598,572	598,572
CURRENT ASSETS				
Prepayments, deposits and other receivables	25	—	2,006	2,611
Cash and cash equivalents	26	—	479	241
Total current assets		—	2,485	2,852
CURRENT LIABILITIES				
Other payables and accruals	28	—	14	611
Total current liabilities		—	14	611
NET CURRENT ASSETS		—	2,471	2,241
TOTAL ASSETS LESS CURRENT LIABILITIES				
Net assets		—	601,043	600,813
EQUITY				
Issued capital	30	—	—	—
Reserves	31(b)	—	601,043	600,813
Total equity		—	601,043	600,813

II. NOTES TO FINANCIAL INFORMATION**1. CORPORATE INFORMATION****Reorganisation**

On 21 July 2011, Kangda Holdings was incorporated in the British Virgin Islands (“BVI”) with authorised share capital of US\$50,000 divided into 50,000 shares with a par value of US\$1.00 each. On the same day, Mr. Zhao Sizhen subscribed for one share in Kangda Holdings.

On 22 August 2011, the Company was incorporated in the Cayman Islands as an exempted company with authorised share capital of HK\$380,000 divided into 38,000,000 shares with a par value of HK\$0.01 each. On the same day, one nil-paid share of the Company was issued to Codan Trust Company (Cayman) Limited and such share was transferred to Kangda Holdings on the same day. The address of the registered office of the Company is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111, Cayman Islands.

On 23 August 2011, Kangda Environmental Protection Investment Limited (“Kangda Investment”) was incorporated in the BVI with authorised share capital of US\$50,000 divided into 50,000 shares with a par value of US\$1.00 each. On 25 May 2012, one share of Kangda Investment was issued to the Company at a consideration of HK\$672,100,000, equivalent to RMB548,299,000.

On 2 September 2011, Kangda Investment (Hong Kong) Company Limited (“Kangda Hong Kong”) was incorporated in Hong Kong with authorised share capital of HK\$10,000 divided into 10,000 shares with a par value of HK\$1.00 each. On the same day, one share of Kangda Hong Kong was issued to Kangda Investment at par value. On 25 May 2012, one additional share of Kangda Hong Kong was issued to Kangda Investment at a consideration of HK\$672,100,000, equivalent to RMB548,299,000.

On 15 May 2012, Kangda Holdings subscribed the Company’s 9,999 shares with a par value of HK\$0.01 each, amongst which 9,998 shares were issued and fully paid up, with the remaining 1 share issued but nil paid. On 25 May 2012, the Company received HK\$737,164,000, equivalent to RMB601,378,000, as the paid in consideration for such 1 share.

On 5 April 2012, Chongqing Kangte entered into an equity transfer agreement with Kangda Hong Kong, pursuant to which Chongqing Kangte transferred its 100% equity interests in Chongqing Kangda to Kangda Hong Kong for a consideration of RMB375,000,000. Such consideration was fully settled on 11 June 2012. Immediately after such equity transfer, Chongqing Kangda became wholly owned by Kangda Hong Kong.

Prior to 11 June 2012, the investment in the design, construction and engineering of wastewater treatment plants (“WTPs”) and municipal infrastructures, and operation of WTPs (the “Core Businesses”) in the People’s Republic of China (the “PRC”, or Mainland China, which excludes for the purpose of this report, the Hong Kong Special Administrative Region of the PRC or Hong Kong, the Macau Special Administrative Region of the PRC or Macau, and Taiwan) were carried out by

Chongqing Kangda, which is owned by Mr. Zhao Juanxian and Mr. Zhao Sizhen, the son of Mr. Zhao Juanxian (hereinafter referred to as the “Controlling Shareholders”). Upon completion of the above reorganisation on 11 June 2012, the Company became the holding company of the companies now comprising the Group.

In the opinion of the Directors, the holding company of the Company is Kangda Holdings which is controlled by the Controlling Shareholders.

More details about the Reorganisation are set out in the paragraphs headed “Our History and Development” in the section headed “History and Corporate Structure” in the Prospectus.

The Exchangeable Bonds

On 24 May 2012, the Baring Asia Private Equity Fund V, L.P. (“Baring Asia”) and Baring Private Equity Asia V Holding (5) Limited (“BPEA”) (collectively, the “Investors”) entered into a Bond Purchase Agreement with Kangda Holdings and Mr. Zhao Sizhen. Pursuant to the bond purchase agreement, the Investors purchased the exchangeable bonds issued by Kangda Holdings with a principal amount of HK\$737,164,130, which are exchangeable into the shares held by Kangda Holdings in the Company (the “Exchangeable Bonds”).

The Exchangeable Bonds will be automatically and mandatorily exchanged into the shares held by Kangda Holdings in the Company immediately prior to the commencement of dealings in the shares on the Hong Kong Stock Exchange on the listing date. The number of shares into which the Exchangeable Bonds are exchangeable shall be the quotient of (i) the amount equal to the principal amount of the Exchangeable Bonds and all interest accrued thereon; and (ii) the offer price.

The shareholding percentage of the Investor after the exchange of the Exchangeable Bonds shall be at no greater than 29.99% of the then issued shares of the Company following the completion of the global offering and the exchange of the Exchangeable Bonds by the Investor in full and assuming that the over-allotment option is not exercised.

More details about the issue of the Exchangeable Bonds are set out in the paragraphs headed “The Exchangeable Bonds” in the section headed “History and Corporate Structure” in the Prospectus.

At the date of this report, the Company had direct or indirect interests in the following subsidiaries, all of which are private limited liability companies and the particulars of which are set out below:

Company name	Place and date of incorporation/ registration	Issued and fully paid-up capital /registered capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Kangda Environmental Protection Investment Limited (康達環保投資有限公司)	The BVI 23 August 2011	US\$1	100	—	Investment holding company

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Company name	Place and date of incorporation/ registration	Issued and fully paid-up capital /registered capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Kangda Investment (Hong Kong) Company Limited (康達投資(香港)有限公司)	Hong Kong 2 September 2011	HK\$1	—	100	Investment holding company
Chongqing Kangda Environmental Protection Industry (Group) Co., Ltd. (重慶康達環保產業(集團)有限公司)#	The PRC/ Mainland China 19 July 1996	RMB530,000,000	—	100	Investment in WTPs, construction of municipal infrastructure in Mainland China
Kangda Environmental Protection; (Gaomi) Water Co., Ltd. (康達環保(高密)水務有限公司)#	The PRC/ Mainland China 8 May 2006	RMB33,000,000	—	100	Construction and provision of WTPs operation services in Mainland China
Kangda Environmental Protection (Linyi) Water Co., Ltd. (康達環保(臨沂)水務有限公司)#	The PRC/ Mainland China 19 April 2007	RMB15,000,000	—	100	Construction and provision of WTPs operation services in Mainland China
Kangda Environmental Protection Water Co., Ltd. (康達環保水務有限公司)#	The PRC/ Mainland China 16 May 2006	RMB80,000,000	—	100	Construction and provision of WTPs operation services in Mainland China
Xuzhou Kangda Environmental Protection Water Co., Ltd. (徐州康達環保水務有限公司)#	The PRC/ Mainland China 17 April 2006	RMB20,000,000	—	100	Construction and provision of WTPs operation services in Mainland China
Kangda Environmental Protection (Shangqiu) Water Co., Ltd. (康達環保(商丘)水務有限公司)#	The PRC/ Mainland China 19 January 2007	RMB63,000,000	—	100	Construction and provision of WTPs operation services in Mainland China
Kangda Environmental Protection (Suzhou) Water Co., Ltd. (康達環保(宿州)水務有限公司)#	The PRC/ Mainland China 12 October 2006	RMB23,000,000	—	100	Provision of WTPs operation services in Mainland China
Guangrao Kangda Environmental Protection Water Co., Ltd. (廣饒康達環保水務有限公司)#	The PRC/ Mainland China 20 June 2008	RMB8,320,000	—	100	Construction and provision of WTPs operation services in Mainland China
Harbin Kangda Environmental Protection Investment Co., Ltd. (哈爾濱康達環保投資有限公司)#	The PRC/ Mainland China 10 December 2008	RMB30,000,000	—	100	Construction and provision of WTPs operation services in Mainland China
Linying Kangda Environmental Protection Water Co., Ltd. (臨穎康達環保水務有限公司)#	The PRC/ Mainland China 28 July 2008	RMB6,000,000	—	100	Provision of WTPs operation services in Mainland China

Company name	Place and date of incorporation/ registration	Issued and fully paid-up capital /registered capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Fengxian Kangda Environmental Protection Second Sewage Treatment Co., Ltd. (豐縣康達環保第二污水處理有限公司)#	The PRC/ Mainland China 26 August 2009	RMB20,000,000	—	100	Construction and provision of WTPs operation services in Mainland China
Weifang Kangda Environmental Protection Water Co., Ltd. (濰坊康達環保水務有限公司)#	The PRC/ Mainland China 19 February 2009	RMB94,180,000	—	100	Construction and provision of WTPs operation services in Mainland China
Kangda Environmental Protection (Gaomi) Sewage Treatment Co., Ltd. (康達環保(高密)污水處理有限公司)#	The PRC/ Mainland China 19 August 2009	RMB17,000,000	—	100	Construction and provision of WTPs operation services in Mainland China
Wendeng Kangda Environmental Protection Water Co., Ltd. (文登康達環保水務有限公司)#	The PRC/ Mainland China 30 November 2009	RMB10,000,000	—	100	Construction and provision of WTPs operation services in Mainland China
Haiyang Kangda Environmental Protection Water Co., Ltd. (海陽康達環保水務有限公司)#	The PRC/ Mainland China 21 October 2010	RMB6,000,000	—	100	Provision of WTPs operation services in Mainland China
Jining Kangda Environmental Protection Water Co., Ltd. (濟寧康達環保水務有限公司)#	The PRC/ Mainland China 27 September 2010	RMB25,000,000	—	100	Construction and provision of WTPs operation services in Mainland China
Tianjin Kangda Environmental Protection Water Co., Ltd. (天津康達環保水務有限公司)#	The PRC/ Mainland China 8 November 2010	RMB16,500,000	—	100	Provision of WTPs operation services in Mainland China
Kangda Environmental Protection (Gaomi) Fengcheng Sewage Treatment Co., Ltd. (康達環保(高密)鳳城生活污水處理有限公司)#	The PRC/ Mainland China 8 August 2011	RMB8,500,000	—	100	Provision of WTPs operation services in Mainland China
Rushan Kangda Water Co., Ltd. (乳山康達水務有限公司)#	The PRC/ Mainland China 12 October 2011	RMB24,000,000	—	100	Construction and provision of WTPs operation services in Mainland China
Weifang Binhai Kangda Environmental Protection Water Co., Ltd. (濰坊濱海康達環保水務有限公司)#	The PRC/ Mainland China 16 November 2011	RMB10,500,000	—	100	Construction and provision of WTPs operation services in Mainland China
Beijing Kangda Jiamao Environmental Protection Technology Development Co., Ltd. (北京康達嘉茂環保科技開發有限公司)#	The PRC/ Mainland China 29 September 2011	RMB100,000	—	100	Construction and provision of WTPs operation services in Mainland China

Company name	Place and date of incorporation/ registration	Issued and fully paid-up capital /registered capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Shangqiu Kangda Sewage Treatment Co., Ltd. (商丘康達污水處理有限公司)#	The PRC/ Mainland China 15 February 2012	RMB7,000,000	—	100	Construction and provision of WTPs operation services in Mainland China
Haiyang Xingcun Kangda Water Co., Ltd. (海陽行村康達水務有限公司)#	The PRC/ Mainland China 14 February 2012	RMB3,000,000	—	100	Construction and provision of WTPs operation services in Mainland China
Hebi Kangda Water Co., Ltd. (鶴壁康達水務有限公司)#	The PRC/ Mainland China 7 February 2012	RMB20,000,000	—	60	Construction and provision of water supply services in Mainland China
Kangda Environmental Protection (Hebi) Water Treatment Co., Ltd. (康達環保(鶴壁)水處理有限公司)#	The PRC/ Mainland China 15 February 2012	RMB5,500,000	—	100	Construction and provision of WTPs operation services in Mainland China
Pingdingshan Kangda Environmental Protection Water Co., Ltd. (平頂山康達環保水務有限公司)#	The PRC/ Mainland China 18 October 2012	RMB10,000,000	—	100	Provision of WTPs operation services in Mainland China
Shanxian Kangda Environmental Protection Water Co., Ltd. (單縣康達環保水務有限公司)#	The PRC/ Mainland China 3 December 2012	RMB2,000,000	—	100	Construction and provision of WTPs operation services in Mainland China
Suzhou Kangda Environmental Protection Sewage Treatment Co., Ltd. (宿州康達環保污水處理有限公司)#	The PRC/ Mainland China 4 March 2013	RMB36,000,000	—	100	Provision of WTPs operation services in Mainland China
Huadian Kangda Environmental Protection Water Co., Ltd. (樺甸康達環保水務有限公司)#	The PRC/ Mainland China 21 August 2013	RMB10,000,000	—	100	Provision of WTPs operation services in Mainland China
Fengxian Kangda Environmental Protection Third Sewage Treatment Co., Ltd. (豐縣康達環保第三污水處理有限公司)#	The PRC/ Mainland China 18 October 2013	RMB3,000,000	—	100	Construction and provision of WTPs operation services in Mainland China
Kangda (Dongying) Environmental Protection Water Co., Ltd. ("Kangda Dongying") (康達(東營)環保水務有限公司)#	The PRC/ Mainland China 28 November 2012	US\$13,115,000	—	100	Construction and provision of WTPs operation services in Mainland China

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Company name	Place and date of incorporation/ registration	Issued and fully paid-up capital /registered capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Chongqing Zhongya Technology Co., Ltd. (重慶中雅科技有限公司)#	The PRC/ Mainland China 9 August 2007	RMB2,000,000	—	100	Development and sale of environmental protection and energy saving products, provision of related technical services in Mainland China
Gaomi Zhongya Water Purification Material Co., Ltd. (“Gaomi Zhongya”) (高密市中雅淨水材料有限公司)#	The PRC/ Mainland China 4 July 2011	RMB2,000,000	—	100	Sale and distribution of waste water treatment products in Mainland China
Jilin Kangda Environmental Protection Co., Ltd. (“Jilin Kangda”) (吉林康達環保有限公司)#	The PRC/ Mainland China 22 September 2011	RMB5,000,000	—	51	Reclaimed water treatment in Mainland China
Beijing Chang Sheng Si Yuan Environmental Protection Technology Co., Ltd. (“Beijing Chang Sheng”) (北京長盛思源環保科技有限公司)#	The PRC/ Mainland China 10 June 2008	RMB150,000,000	—	100	Investment, management of environmental projects and public infrastructure projects in Mainland China
Ningguo Chengjian Sewage Treatment Co., Ltd. (寧國市城建污水處理有限公司)#	The PRC/ Mainland China 30 May 2008	RMB20,000,000	—	100	Construction and provision of WTPs operation services in Mainland China
Jixi Xian Chengjian Sewage Treatment Co., Ltd. (績溪縣城建污水處理有限公司)#	The PRC/ Mainland China 24 September 2007	RMB8,000,000	—	100	Construction and provision of WTPs operation services in Mainland China
Yucheng Dongjiao Chengjian Sewage Treatment Co., Ltd. (禹城東郊城建污水處理有限公司)#	The PRC/ Mainland China 3 December 2010	RMB10,000,000	—	100	Construction and provision of WTPs operation services in Mainland China
Jiyuan Yuchuan Chengjian Sewage Treatment Co., Ltd. (濟源市玉川城建污水處理有限公司)#	The PRC/ Mainland China 7 July 2011	RMB30,000,000	—	100	Construction and provision of WTPs operation services in Mainland China
Anhui Chengjian Huashan Sewage Treatment Co., Ltd. (安徽省城建花山污水處理有限公司)#	The PRC/ Mainland China 22 October 2008	RMB8,000,000	—	100	Construction and provision of WTPs operation services in Mainland China

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Company name	Place and date of incorporation/ registration	Issued and fully paid-up capital /registered capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Dacheng Chengjian Environmental Protection Sewage Treatment Co., Ltd. (大城縣城建環保污水處理有限公司)#	The PRC/ Mainland China 17 November 2008	RMB9,600,000	—	100	Construction and provision of WTPs operation services in Mainland China

The names of these companies referred to in this report represent management's best effort at translating the Chinese names of the companies, as no English names have been registered.

Notes:

Details of the companies now comprising the Group that are subject to statutory audit during the Relevant Periods and the names of the respective auditors are set out below:

Name of subsidiary	Financial period/year	Statutory auditors
Kangda Environmental Protection Investment Limited	Period from 23 August 2011 to 31 December 2012 and financial year ended 31 December 2013	Tony Kam & Co Certified Public Accountants
Kangda Investment (Hong Kong) Company Limited	Period from 2 September 2011 to 31 December 2011 and financial years ended 31 December 2012 and 2013	Tony Kam & Co Certified Public Accountants
Chongqing Kangda Environmental Protection Industry (Group) Co., Ltd.	Financial years ended 31 December 2011, 2012 and 2013	Chongqing Puhua Certified Public Accountants Co., Ltd. * (重慶普華會計師事務所有限責任公司)
Kangda Environmental Protection (Gaomi) Water Co., Ltd	Financial year ended 31 December 2011	Chongqing Puhua Certified Public Accountants Co., Ltd. * (重慶普華會計師事務所有限責任公司)
	Financial years ended 31 December 2012 and 2013	Gaomi Yixin Certified Public Accountants Ltd. * (高密益信有限責任會計師事務所)
Kangda Environmental Protection (Linyi) Water Co., Ltd	Financial year ended 31 December 2011	Shandong Tianhengxin Certified Public Accountants Ltd. * (山東天恒信有限責任會計師事務所)
	Financial year ended 31 December 2012	Jiangsu Xuzhou Justice Certified Public Accountants * (江蘇徐州公正會計師事務所)
	Financial year ended 31 December 2013	Jiangsu Huaihai Certified Public Accountants Co., Ltd. * (江蘇淮海會計師事務所有限公司)

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Name of subsidiary	Financial period/year	Statutory auditors
Kangda Environmental Protection Water Co., Ltd.	Financial year ended 31 December 2011	Chongqing Puhua Certified Public Accountants Co., Ltd. * (重慶普華會計師事務所有限責任公司)
	Financial years ended 31 December 2012 and 2013	Henan Chengquan Lianhe Certified Public Accountants* (河南誠泉聯合會計師事務所)
Xuzhou Kangda Environmental Protection Water Co., Ltd.	Financial years ended 31 December 2011 and 2012	Jiangsu Xuzhou Justice Certified Public Accountants * (江蘇徐州公正會計師事務所)
	Financial year ended 31 December 2013	Jiangsu Huaihai Certified Public Accountants Co., Ltd. * (江蘇淮海會計師事務所有限公司)
Kangda Environmental Protection (Shangqiu) Water Co., Ltd.	Financial year ended 31 December 2011	Chongqing Puhua Certified Public Accountants Co., Ltd. * (重慶普華會計師事務所有限責任公司)
	Financial years ended 31 December 2012 and 2013	Henan Yuhua Certified Public Accountants Co., Ltd. * (河南豫華會計師事務所有限公司)
Kangda Environmental Protection (Suzhou) Water Co., Ltd.	Financial year ended 31 December 2011	Chongqing Puhua Certified Public Accountants Co., Ltd. * (重慶普華會計師事務所有限責任公司)
	Financial years ended 31 December 2012 and 2013	Suzhou Fuxiao Certified Public Accountants * (宿州拂曉會計師事務所)
Guangrao Kangda Environmental Protection Water Co., Ltd.	Financial year ended 31 December 2011	Chongqing Puhua Certified Public Accountants Co., Ltd. * (重慶普華會計師事務所有限責任公司)
	Financial years ended 31 December 2012 and 2013	Gaomi Yixin Certified Public Accountants Ltd. * (高密益信有限責任會計師事務所)
Harbin Kangda Environmental Protection Investment Co., Ltd.	Financial year ended 31 December 2011	Chongqing Puhua Certified Public Accountants Co., Ltd. * (重慶普華會計師事務所有限責任公司)
	Financial years ended 31 December 2012 and 2013	Harbin Jindaxin Accountant Office * (哈爾濱金達信會計師事務所)
Linying Kangda Environmental Protection Water Co., Ltd.	Financial year ended 31 December 2011	Chongqing Puhua Certified Public Accountants Co., Ltd. * (重慶普華會計師事務所有限責任公司)
	Financial year ended 31 December 2012	Henan Bozhi Certified Public Accountants * (河南博智會計師事務所(普通合夥))
	Financial year ended 31 December 2013	Luohe Xinlida United Certified Public Accountants' Office * (漯河信利達聯合會計師事務所)

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Name of subsidiary	Financial period/year	Statutory auditors
Fengxian Kangda Environmental Protection Second Sewage Treatment Co., Ltd.	Financial years ended 31 December 2011 and 2012	Jiangsu Xuzhou Justice Certified Public Accountants * (江蘇徐州公正會計師事務所)
	Financial year ended 31 December 2013	Jiangsu Huaihai Certified Public Accountants Co., Ltd. * (江蘇淮海會計師事務所有限公司)
Weifang Kangda Environmental Protection Water Co., Ltd.	Financial year ended 31 December 2011	Chongqing Puhua Certified Public Accountants Co., Ltd. * (重慶普華會計師事務所有限責任公司)
	Financial years ended 31 December 2012 and 2013	Gaomi Yixin Certified Public Accountants Ltd. * (高密益信有限責任會計師事務所)
Kangda Environmental Protection (Gaomi) Sewage Treatment Co., Ltd.	Financial year ended 31 December 2011	Chongqing Puhua Certified Public Accountants Co., Ltd. * (重慶普華會計師事務所有限責任公司)
	Financial years ended 31 December 2012 and 2013	Gaomi Yixin Certified Public Accountants Ltd. * (高密益信有限責任會計師事務所)
Wendeng Kangda Environmental Protection Water Co., Ltd.	Financial years ended 31 December 2011, 2012 and 2013	Wendeng Tongxing Lianhe Certified Public Accountants * (文登同興聯合會計師事務所)
Haiyang Kangda Environmental Protection Water Co., Ltd.	Financial years ended 31 December 2011, 2012 and 2013	Yantai Zhenhua Limited Liability Certified Public Accountants * (煙台振華有限責任會計師事務所)
Jining Kangda Environmental Protection Water Co., Ltd.	Financial year ended 31 December 2011	Chongqing Puhua Certified Public Accountants Co., Ltd. * (重慶普華會計師事務所有限責任公司)
	Financial year ended 31 December 2012	Gaomi Yixin Certified Public Accountants Ltd. * (高密益信有限責任會計師事務所)
	Financial year ended 31 December 2013	Jining Changshun Certified Public Accountants Co., Ltd. * (濟寧長順會計師事務所有限公司)
Tianjin Kangda Environmental Protection Water Co., Ltd.	Financial year ended 31 December 2011	Chongqing Puhua Certified Public Accountants Co., Ltd. * (重慶普華會計師事務所有限責任公司)
	Financial years ended 31 December 2012 and 2013	Tianjin Guangyuan Certified Public Accountants Co., Ltd. * (天津市廣遠有限責任會計師事務所)
Kangda Environmental Protection (Gaomi) Fengcheng Sewage Treatment Co., Ltd.	Period from 8 August 2011 to 31 December 2011	Chongqing Puhua Certified Public Accountants Co., Ltd. * (重慶普華會計師事務所有限責任公司)
	Financial years ended 31 December 2012 and 2013	Gaomi Yixin Certified Public Accountants Ltd. * (高密益信有限責任會計師事務所)

Name of subsidiary	Financial period/year	Statutory auditors
Rushan Kangda Water Co., Ltd.	Period from 12 October 2011 to 31 December 2011	Chongqing Puhua Certified Public Accountants Co., Ltd. * (重慶普華會計師事務所有限責任公司)
	Financial years ended 31 December 2012 and 2013	Rushan Taihe Certified Public Accountants Co., Ltd. * (乳山泰和會計師事務所有限公司)
Weifang Binhai Kangda Environmental Protection Water Co., Ltd.	Period from 16 November 2011 to 31 December 2011	Chongqing Puhua Certified Public Accountants Co., Ltd. * (重慶普華會計師事務所有限責任公司)
	Financial years ended 31 December 2012 and 2013	Gaomi Yixin Certified Public Accountants Ltd. * (高密益信有限責任會計師事務所)
Beijing Kangda Jiamao Environmental Protection Technology Development Co., Ltd.	Period from 29 September 2011 to 31 December 2011	Chongqing Puhua Certified Public Accountants Co., Ltd. * (重慶普華會計師事務所有限責任公司)
	Financial years ended 31 December 2012 and 2013	Beijing Daxing Certified Public Accountants Co., Ltd. * (北京達興會計師事務所有限責任公司)
Shangqiu Kangda Sewage Treatment Co., Ltd.	Period from 15 February 2012 to 31 December 2012	Henan Yuhua Certified Public Accountants Co., Ltd. * (河南豫華會計師事務所有限責任公司)
	Financial year ended 31 December 2013	Henan Yuhua Certified Public Accountants Co., Ltd. * (河南豫華會計師事務所有限責任公司)
Haiyang Xingcun Kangda Water Co., Ltd.	Period from 14 February 2012 to 31 December 2012	Yantai Zhenhua Limited Liability Certified Public Accountants * (煙台振華有限責任會計師事務所)
	Financial year ended 31 December 2013	Yantai Zhenhua Limited Liability Certified Public Accountants * (煙台振華有限責任會計師事務所)
Hebi Kangda Water Co., Ltd.	Period from 7 February 2012 to 31 December 2012	Henan Qiangyuan Certified Public Accountants Co., Ltd. * (河南強遠會計師事務所有限責任公司)
	Financial year ended 31 December 2013	Henan Qiangyuan Certified Public Accountants Co., Ltd. * (河南強遠會計師事務所有限責任公司)
Kangda Environmental Protection (Hebi) Water Treatment Co., Ltd.	Period from 15 February 2012 to 31 December 2012	Henan Qiangyuan Certified Public Accountants Co., Ltd. * (河南強遠會計師事務所有限責任公司)
	Financial year ended 31 December 2013	Henan Qiangyuan Certified Public Accountants Co., Ltd. * (河南強遠會計師事務所有限責任公司)
Pingdingshan Kangda Environmental Protection Water Co., Ltd.	Period from 18 October 2012 to 31 December 2012	Wugang Jingsheng Lianhe Certified Public Accountants * (舞鋼景昇聯合會計師事務所)

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	Financial year ended 31 December 2013	Wugang Jingsheng Lianhe Certified Public Accountants * (舞鋼景昇聯合會計師事務所)
Shanxian Kangda Environmental Protection Water Co., Ltd.	Period from 3 December 2012 to 31 December 2012	Henan Yuhua Certified Public Accountants Co., Ltd. * (河南豫華會計師事務所有限公司)
	Financial year ended 31 December 2013	Henan Yuhua Certified Public Accountants Co., Ltd. * (河南豫華會計師事務所有限公司)
Suzhou Kangda Environmental Protection Sewage Treatment Co., Ltd.	Period from 4 April 2013 to 31 December 2013	Suzhou Fuxiao Certified Public Accountants * (宿州拂曉會計師事務所)
Huadian Kangda Environmental Protection Water Co., Ltd.	Period from 13 August 2013 to 31 December 2013	Jilin Hualun Accounting Firm Co., Ltd.* (吉林華倫會計師事務所有限責任公司)
Fengxian Kangda Environmental Protection Third Sewage Treatment Co., Ltd.	Period from 18 October 2013 to 31 December 2013	Jiangsu Huaihai Certified Public Accounts Co., Ltd. * (江蘇淮海會計師事務所有限公司)
Kangda (Dongying) Environmental Protection Water Co., Ltd.	Period from 28 November 2012 to 31 December 2012	Shandong Tianhao Certified Public Accountants Ltd. * (山東天昊會計師事務所有限公司)
	Financial year ended 31 December 2013	Shandong Tianhao Certified Public Accountants Ltd. * (山東天昊會計師事務所有限公司)
Chongqing Zhongya Technology Co., Ltd.	Financial years ended 31 December 2011, 2012 and 2013	Chongqing Puhua Certified Public Accountants Co., Ltd. * (重慶普華會計師事務所有限責任公司)
Gaomi Zhongya Water Purification Material Co., Ltd.	Period from 4 July 2011 to 31 December 2011	Chongqing Puhua Certified Public Accountants Co., Ltd. * (重慶普華會計師事務所有限責任公司)
	Financial years ended 31 December 2012 and 2013	Gaomi Yixin Certified Public Accountants Ltd. * (高密益信有限責任會計師事務所)
Jilin Kangda Environmental Protection Co., Ltd.	Period from 22 September 2011 to 31 December 2011	Chongqing Puhua Certified Public Accountants Co., Ltd. * (重慶普華會計師事務所有限責任公司)
	Financial years ended 31 December 2012 and 2013	Jilin Hualun Accounting Firm Co., Ltd.* (吉林華倫會計師事務所有限責任公司)
Beijing Chang Sheng Si Yuan Environmental Protection Technology Co., Ltd.	Period from 30 April 2013 to 31 December 2013	Beijing Zhongcheng Hengping Certified Public Accountants Ltd. * (北京中誠恒平會計師事務所有限公司)
Ningguo Chengjian Sewage Treatment Co., Ltd.	Period from 30 April 2013 to 31 December 2013	Anhui Tongsheng Certified Public Accountants Ltd. * (安徽同盛會計師事務所有限公司)

Name of subsidiary	Financial period/year	Statutory auditors
Jixi Xian Chengjian Sewage Treatment Co., Ltd.	Period from 30 April 2013 to 31 December 2013	Anhui Tongsheng Certified Public Accountants Ltd. * (安徽同盛會計師事務所有限公司)
Yucheng Dongjiao Chengjian Sewage Treatment Co., Ltd.	Period from 30 April 2013 to 31 December 2013	Gaomi Yixin Certified Public Accountants Ltd. * (高密益信有限責任會計師事務所)
Jiyuan Yuchuan Chengjian Sewage Treatment Co., Ltd.	Period from 30 April 2013 to 31 December 2013	Henan Chengquan Lianhe Certified Public Accountants* (河南誠泉聯合會計師事務所)
Anhui Chengjian Huashan Sewage Treatment Co., Ltd.	Period from 30 April 2013 to 31 December 2013	Anhui Tongsheng Certified Public Accountants Ltd. * (安徽同盛會計師事務所有限公司)
Dacheng Environmental Protection Chengjian Sewage Treatment Co., Ltd.	Period from 30 April 2013 to 31 December 2013	Dacheng Huaqiang Accountants Co., Ltd. * (大城華強會計師事務所)

* The names of these Certified Public Accountants Firms (“CPA Firms”) referred to in this report represent management’s best effort at translating the Chinese names of the CPA Firms, as no English names have been registered.

2.1 BASIS OF PRESENTATION

As set out in the paragraphs headed “Corporate Reorganisation” in the section headed “History and Corporate Structure” in the Prospectus, prior to Chongqing Kangda transferring all the Core Businesses to the Company on 11 June 2012, all the Core Businesses were controlled and owned by the Controlling Shareholders through Chongqing Kangte. Because the Controlling Shareholders have been controlling the Core Businesses before and after the Reorganisation, for the purpose of this report, the consolidated financial statements have been prepared by applying the principles of merger accounting as if the Reorganisation had completed at the beginning of the Relevant Periods.

The Financial Information excludes the other businesses, which are under the control of the Controlling Shareholders, but are not strategically complementary to the Core Businesses, such as equipment sales and other environmental protection businesses (the “Non-core Businesses”). In evaluating whether the Financial Information prior to the Reorganisation fairly presents the history of the Group’s businesses, the Directors considered, among others, the following:

- (i) whether the Non-core Businesses were in dissimilar businesses;

- (ii) whether the Non-core Businesses were and would be operated autonomously both before and after the Reorganisation; and
- (iii) whether the Non-core Businesses had no more than incidental common facilities and costs.

The consolidated statements of profit or loss and other comprehensive income, statements of changes in equity and statements of cash flows of the Group for the Relevant Periods include the results and cash flows of all companies now comprising the Group from the earliest date presented or since the date when the companies first came under the common control of the Controlling Shareholders, where this is a shorter period. The consolidated statements of financial position of the Group as at 31 December 2011, 2012 and 2013 have been prepared to present the assets and liabilities of the companies using the existing book values from the Controlling Shareholders' perspective. No adjustments are made to reflect fair values, or recognise any new assets or liabilities as a result of the Reorganisation.

Equity interest in subsidiaries and/ or businesses held by other parties other than controlling shareholders prior to the Reorganisation are presented as non-controlling interests in equity in applying the principles of merger accounting.

All intra-group transactions and balances have been eliminated on consolidation.

2.2 BASIS OF PREPARATION

The Financial Information has been prepared in accordance with IFRSs, which comprise all standards and interpretations approved by the IASB. All IFRSs effective for the accounting period commencing from 1 January 2013, together with the relevant transitional provisions, and Amendments to IAS 36 *Impairment of Assets — Recoverable Amount Disclosures for Non-Financial Assets*, have been early adopted by the Group in the preparation of the Financial Information throughout the Relevant Periods.

The Financial Information has been prepared under the historical cost convention. The Financial Information is presented in Renminbi ("RMB") and all values are rounded to the nearest thousand except when otherwise indicated.

Basis of consolidation

The Financial Information includes the financial statements of the Company and its subsidiaries for the Relevant Periods. The financial statements of the subsidiaries are prepared for the same reporting periods as the Company, using consistent accounting policies. The results of subsidiaries are consolidated from the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

Profit or loss and each component of other comprehensive income are attributed to the owners of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control described in the accounting policy for subsidiaries below. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises (i) the assets (including goodwill) and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interest and (iii) the cumulative translation differences recorded in equity; and recognises (i) the fair value of the consideration received, (ii) the fair value of any investment retained and (iii) any resulting surplus or deficit in profit or loss. The Group's share of components previously recognised in other comprehensive income is reclassified to profit or loss or retained profits, as appropriate, on the same basis as would be required if the Group had directly disposed of the related assets or liabilities.

3.1 ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS

The Group has not applied the following new and revised IFRSs, that have been issued but are not yet effective, in these financial statements:

IFRS 9	<i>Financial Instruments</i> ⁴
IFRS 9, IFRS 7 and IAS 39 Amendments	<i>Hedge Accounting and amendments to IFRS 9, IFRS 7 and IAS 39</i> ⁴
IFRS 10, IFRS 12 and IAS 27 (2011) Amendments	Amendments to IFRS 10, IFRS 12 and IAS 27 (2011) — <i>Investment Entities</i> ¹
IFRS 14	<i>Regulatory Deferral Accounts</i> ³
IFRS 15	<i>Revenue for Contracts with Customers</i> ⁵
IAS 19 Amendments	Amendments to IAS 19 <i>Employee Benefits — Defined Benefit Plans: Employee Contributions</i> ²
IAS 32 Amendments	Amendments to IAS 32 <i>Financial Instruments: Presentation — Offsetting Financial Assets and Financial Liabilities</i> ¹
IAS 39 Amendments	Amendments to IAS 39 <i>Financial Instruments: Recognition and Measurement — Novation of Derivatives and Continuation of Hedge Accounting</i> ¹
IFRIC 21	<i>Levies</i> ¹
Annual Improvements 2010-2012 & 2011-2013 Cycles	Amendments to a number of IFRSs ²

¹ Effective for annual periods beginning on or after 1 January 2014

² Effective for annual periods beginning on or after 1 July 2014

³ Effective for annual periods beginning on or after 1 January 2016

⁴ No mandatory effective date yet determined but is available for adoption

⁵ Effective for annual periods beginning on or after 1 January 2017

The Group is in the process of making an assessment of the impact of these new and revised IFRSs upon initial application. So far, the Group considers that these new and revised IFRSs may result in changes in accounting policies and are unlikely to have a significant impact on the Group's results of operations and financial position.

3.2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Subsidiaries

A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

When the Company has, directly or indirectly, less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- (a) the contractual arrangement with the other vote holders of the investee;
- (b) rights arising from other contractual arrangements; and
- (c) the Group's voting rights and potential voting rights.

The results of subsidiaries are included in the Company's profit or loss to the extent of dividends received and receivable. The Company's investments in subsidiaries that are not classified as held for sale in accordance with IFRS 5 are stated at cost less any impairment losses.

Investment in an associate

An associate is an entity in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

The Group's investments in associates are stated in the consolidated statements of financial position at the Group's share of net assets under the equity method of accounting, less any impairment losses.

The Group's share of the post-acquisition results and other comprehensive income of associates is included in profit or loss and consolidated other comprehensive income, respectively. In addition, when there has been a change recognised directly in the equity of the associate, the Group recognises its share of any changes, when applicable, in the consolidated statements of changes in equity. Unrealised gains and losses resulting from transactions between the Group and its associates are eliminated to the extent of the Group's investments in the associates, except where unrealised losses provide evidence of an impairment of the asset transferred. Goodwill arising from the acquisition of associates is included as part of the Group's investments in associates.

The results of associates are included in the Company's profit or loss to the extent of dividends received and receivable. The Company's investments in associates are treated as non-current assets and are stated at cost less any impairment losses.

When an investment in an associate is classified as held for sale, it is accounted for in accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*.

Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The consideration transferred is measured at the acquisition date fair value which is the sum of the acquisition date fair values of assets transferred by the Group, liabilities assumed by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of net assets in the event of liquidation at fair value or at the proportionate share of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at fair value. Acquisition-related costs are expensed as incurred.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, the previously held equity interest is remeasured at its acquisition date fair value and any resulting gain or loss is recognised in profit or loss.

Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of IAS 39 is measured at fair value with changes in fair value either recognised in profit or loss or as a change to other comprehensive income. If the contingent consideration is not within the scope of IAS 39, it is measured in accordance with the appropriate IFRS. Contingent consideration that is classified as equity is not remeasured and subsequent settlement is accounted for within equity.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred, the amount recognised for non-controlling interests and any fair value of the Group's previously held equity interests in the acquiree over the identifiable net assets acquired and liabilities assumed. If the sum of this consideration and other items is lower than the fair value of the net assets acquired, the difference is, after reassessment, recognised in profit or loss as a gain on bargain purchase.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. The Group performs its annual impairment test of goodwill as at 31 December. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. An impairment loss recognised for goodwill is not reversed in a subsequent period.

Where goodwill has been allocated to a cash-generating unit (or group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on the disposal. Goodwill disposed of in these circumstances is measured based on the relative value of the operation disposal of and the portion of the cash-generating unit retained.

Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the Financial Information are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1 — based on quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2 — based on valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly

Level 3 — based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the Financial Information on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by reassessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each of the Relevant Periods.

Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, construction contract assets, financial assets, investment properties, goodwill and non-current assets/a disposal group classified as held for sale), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs of disposal, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. 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. An impairment loss is charged to profit or loss in the period in which it arises in those expense categories consistent with the function of the impaired asset.

An assessment is made at the end of each of the Relevant Periods as to whether there is an indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation) had no impairment loss been recognised for the asset in prior years. A reversal of such an impairment loss is credited to profit or loss in the period in which it arises.

Related parties

A party is considered to be related to the Group if:

- (a) the party is a person or a close member of that person's family and that person
 - (i) has control or joint control over the Group;
 - (ii) has significant influence over the Group; or

(iii) is a member of the key management personnel of the Group or of a parent of the Group;

or

(b) the party is an entity where any of the following conditions applies:

(i) the entity and the Group are members of the same group;

(ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);

(iii) the entity and the Group are joint ventures of the same third party;

(iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;

(v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;

(vi) the entity is controlled or jointly controlled by a person identified in (a); and

(vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. When an item of property, plant and equipment is classified as held for sale or when it is part of a disposal group classified as held for sale, it is not depreciated and is accounted for in accordance with IFRS 5. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to profit or loss in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

Buildings and other infrastructure	3.13%-4.50%
Machinery	6.67%-18.00%
Office equipment and others	9.50%-18.00%

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately. Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each financial year end.

An item of property, plant and equipment including any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in profit or loss in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Construction in progress represents a building under construction, which is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction and capitalised borrowing costs on related borrowed funds during the period of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

Investment properties

Investment properties are interests in land and buildings (including the leasehold interest under an operating lease for a property which would otherwise meet the definition of an investment property) held to earn rental income and/or for capital appreciation, rather than for use in the production or supply of goods or services or for administrative purposes; or for sale in the ordinary course of business. Investment properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at cost less accumulated depreciation and any impairment losses.

Depreciation is calculated on the straight-line basis to write off the cost of each item of investment properties to its residual value over its estimated useful life. The principal annual rate used for this purpose is as follows:

Buildings	4.50%
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Intangible assets (other than goodwill)

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is the fair value at the date of acquisition. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are subsequently amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year end.

Software

Purchased software is stated at cost less any impairment losses and is amortised on the straight-line basis over its estimated useful life of 10 years.

Operating leases

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets, and rentals receivable under the operating leases are credited to profit or loss on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under operating leases net of any incentives received from the lessor are charged to profit or loss on the straight-line basis over the lease terms.

When the lease payments cannot be allocated reliably between the land and buildings elements, the entire lease payments are included in the cost of the land and buildings as a finance lease in property, plant and equipment.

Service concession arrangements

The Group has entered into a number of service concession arrangements with certain governmental authorities or their designees (the "Grantors"). The service concession arrangements consist of Build-Operate-Transfer (the "BOT") arrangements and Transfer-Operate-Transfer (the "TOT") arrangements. Under the BOT arrangements, the Group carries out construction work of the WTPs for the Grantors and receives in return a right to operate the WTPs concerned for a specified period of time (the "operation period") in accordance with the pre-established conditions set by the Grantors, the WTPs should be transferred to the Grantors with nil consideration at the end of the operation period. A TOT arrangement is similar to a BOT arrangement, except that the Group pays consideration for the right to operate WTPs that have been built.

Consideration given by the Grantors

A financial asset (financial receivable) is recognised to the extent that the Group has an unconditional right to receive cash or another financial asset from or at the direction of the Grantors for the construction services rendered and/or the consideration paid and payable by the Group for the right to operate WTPs, and the Grantors have little, if any, discretion to avoid payment, usually

because the agreements are enforceable by law. The Group has an unconditional right to receive cash if the Grantors contractually guarantee to pay the Group specified or determinable amounts even if the payment is contingent on the Group ensuring that the infrastructure meets specified quality of efficiency requirements. The financial asset (financial receivable) is accounted for in accordance with the policy set out for loans and receivables under “Investments and other financial assets” below.

Construction or upgrade services

Revenue and costs relating to construction or upgrade services are accounted for in accordance with the policy set out for “Construction contracts” below.

Operating services

Revenue relating to operating services is accounted for in accordance with the policy for “Revenue recognition” below. Costs for operating services are expensed in the period in which they are incurred.

Build-Transfer (“BT”) arrangements

The Group carries out construction work of municipal infrastructures or infrastructures related to the WTPs under BT contracts for certain PRC governmental authorities or agencies of the government and agrees with these BT customers to have a repurchase agreement for the above construction services ranging from three to four years (the “Repurchase Period”).

Consideration given by the BT customers

A financial asset (financial receivable) is recognised when the Group has an unconditional right under the BT arrangements to receive a fixed and determinable amount of payments during the Repurchase Period and is accounted for in accordance with the policy set out for loans and receivables under “Investments and other financial assets” below.

Construction services

Revenue and costs relating to construction services are accounted for in accordance with the policy set out for “Construction contracts” below.

Investments and other financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, as financial assets at fair value through profit or loss, loans and receivables and available-for-sale financial investments, or as derivatives

designated as hedging instruments in an effective hedge, as appropriate. When financial assets are recognised initially, they are measured at fair value plus transaction costs that are attributable to the acquisition of the financial assets, except in the case of financial assets recorded at fair value through profit or loss.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such assets are subsequently measured at amortised cost using the effective interest rate method less any allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and includes fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in revenue, or other income and gains, as appropriate, in profit or loss. The loss arising from impairment is recognised in profit or loss in other expenses.

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the Group's consolidated statements of financial position) when:

- the rights to receive cash flows from the asset have expired; or
- the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risks and rewards of ownership of the asset. When it has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the Group continues to recognise the transferred asset to the extent of the Group's continuing involvement. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Impairment of financial assets

The Group assesses at the end of each of the Relevant Periods whether there is objective evidence that a financial asset or a group of financial assets is impaired. An impairment exists if one or more events that occurred after the initial recognition of the asset have an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that a debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial assets carried at amortised cost

For financial assets carried at amortised cost, the Group first assesses whether impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

The amount of any impairment loss identified is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition).

The carrying amount of the asset is reduced through the use of an allowance account and the loss is recognised in profit or loss. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group.

If, in a subsequent period, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is credited to other expenses in profit or loss.

Financial liabilities***Initial recognition and measurement***

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings, net of directly attributable transaction costs.

The Group's financial liabilities include trade and bills payables, other payables and interest-bearing bank borrowings.

Subsequent measurement

The subsequent measurement of financial liabilities depends on their classification as follows:

Loans and borrowings

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the effective interest rate amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance costs in profit or loss.

Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in profit or loss.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the consolidated statement of financial position if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the first-in, first-out basis. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the consolidated statement of financial position, cash and cash equivalents comprise cash on hand and at banks, including term deposits, which are not restricted as to use.

Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the date of the consolidated statement of financial position of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in profit or loss.

Provisions for product warranties granted by the Group on certain products are recognised based on sales volume and past experience of the level of repairs and returns, discounted to their present values as appropriate.

Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised outside profit or loss, either in other comprehensive income or directly in equity.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of each of the Relevant Periods, taking into consideration interpretations and practices prevailing in the countries in which the Group operates.

Deferred tax is provided, using the liability method, on all temporary differences at the end of each of the Relevant Periods between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- when the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries and an associate, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, the carryforward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, the carryforward of unused tax credits and unused tax losses can be utilised, except:

- when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries and an associate, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at the end of each of the Relevant Periods and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at the end of each of the Relevant Periods and are recognised to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of each of the Relevant Periods.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income on a systematic basis over the periods that the costs, which it is intended to compensate, are expensed.

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

- (a) from construction contracts, on the percentage of completion basis, as further explained in the accounting policy for “Construction contracts” below;
- (b) from the rendering of operation service of the WTPs, when the service is provided;
- (c) interest income, on an accrual basis using the effective interest method by applying the rate that discounts the estimated future cash receipts over the expected life of the financial asset to the net carrying amount of the financial asset;
- (d) rental income, on a time proportion basis over the lease terms; and
- (e) dividend income, when the shareholders’ right to receive payment has been established.

Construction contracts

Contract revenue primarily comprises (i) the agreed contract amount and appropriate amounts from variation orders, claims and incentive payments in respect of the construction services under the BT arrangements and (ii) the fair value of the construction services under the BOT arrangements. Contract costs incurred comprise direct materials, the costs of subcontracting, direct labour and an appropriate proportion of variable and fixed construction overheads.

BT arrangements

Revenue from the construction services under the BT arrangements is recognised on the percentage of completion method, measured by reference to the proportion of costs incurred to date to the estimated total cost of the relevant contract. Provision is made for foreseeable losses as soon as they are anticipated by management.

Where contract costs incurred to date plus recognised profits less recognised losses exceed progress billings, the surplus is treated as an amount due from contract customers.

Where progress billings exceed contract costs incurred to date plus recognised profits less recognised losses, the surplus is treated as an amount due to contract customers.

BOT arrangements

Revenue from the construction services under the BOT agreements is estimated on a cost-plus basis with reference to the prevailing market rate of gross margin at the date of the agreement applicable to similar construction services rendered in similar locations, and is recognised on the percentage of completion method, measured by reference to the proportion of costs incurred to date to the estimated total cost of the relevant contract.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised. All other borrowing costs are expensed in the period in which they are incurred. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

Dividends

Final dividends proposed by the directors are classified as a separate allocation of retained profits within the equity section of the statement of financial position, until they have been approved by the shareholders in a general meeting. When these dividends have been approved by the shareholders and declared, they are recognised as a liability.

Interim dividends are simultaneously proposed and declared, because the Company's memorandum and articles of association grant the directors the authority to declare interim dividends. Consequently, interim dividends are recognised immediately as a liability when they are proposed and declared.

Foreign currencies

These financial statements are presented in RMB, which is the Company's functional and presentation currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rates of exchange ruling at the end of each of the Relevant Periods. Differences arising on settlement or translation of monetary items are recognised in profit or loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was measured. The gain or loss arising on translation of a non-monetary item measured at fair value is treated in line with the recognition of the gain or loss on change in fair value of the item (i.e., translation difference on the item whose fair value gain or loss is recognised in other comprehensive income or profit or loss is also recognised in other comprehensive income or profit or loss, respectively).

The functional currencies of certain overseas subsidiaries are currencies other than the RMB. As at the end of each of the Relevant Periods, the assets and liabilities of these entities are translated into the presentation currency of the Company at the exchange rates prevailing at the end of each of the Relevant Periods and the consolidated statement of profit or loss and other comprehensive income are translated into RMB at the weighted average exchange rates for the year.

Employee benefits*Pension scheme*

The employees of the Group's subsidiaries which operate in Mainland China are required to participate in a central pension scheme operated by the local municipal government. These subsidiaries are required to contribute a certain percentage of its payroll costs to the central pension scheme. The contributions are charged to profit or loss as they become payable in accordance with the rules of the central pension scheme.

Short term employee benefits

Short term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

A provision is recognised for the amount expected to be paid under short term cash bonus as a result of past service provided by the employee and the obligation can be estimated reliably.

4. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the Financial Information requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and their accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

Judgements

In the process of applying the Group's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the Financial Information:

Accounting for service concession arrangements

The Group engages in certain service concession arrangements in which the Group carries out construction work of the WTPs for the Grantors and receives in return a right to operate the WTPs concerned in accordance with the pre-established conditions set by the Grantors. In accordance with IFRIC Interpretation 12 *Service Concession Arrangements*, the WTPs under the service concession arrangements may be classified as intangible assets or financial assets. The WTPs are classified as intangible assets if the Group receives a right (a licence) to charge users of the public service or if the Grantors remunerate the Group on the basis of the extent of use of the WTPs by users, but with no guarantees as to the amounts that will be paid to the Group. Whenever only part of the investment by the Group under these service concession arrangements is covered by a payment commitment from

the Grantors, it is recognised as a financial receivable up to the amount guaranteed by the Grantors, and as an intangible asset for the balance. The Group recognises a financial receivable if it has an unconditional contractual right under the service concession arrangements to receive a determinable amount of payments during the concession period irrespective of the usage of the WTPs.

Subsequent to initial recognition, the financial receivable is measured at amortised cost using the effective interest method.

Revenue from the construction service under the terms of service concession arrangements is estimated on a cost-plus basis with reference to a prevailing market rate of gross margin at the date of agreement applicable to similar construction services rendered in similar locations, and is recognised on the percentage of completion method, measured by reference to the proportion of costs incurred to date to the estimated total cost of the relevant contract. The Group's prevailing market rate of gross construction margin were valued by CBRE limited, an Independent Third Party valuer which has appropriate qualifications and recent experience in valuation of gross construction margin.

When the Group receives a payment during the concession period, it will apportion such payment between (i) a repayment of the financial receivables (if any), which will be used to reduce the carrying amount of the financial receivables on the consolidated statements of financial position, (ii) interest income, which will be recognised as revenue in profit or loss and (iii) revenue from operating and maintaining the WTPs in profit or loss.

Judgement is also exercised in determining the fair value of the financial receivables. Discount rates, estimates of future cash flows and other factors are used in the valuation process.

Withholding tax arising from the distribution of dividends

The Group's determination as to whether to accrue for withholding taxes arising from the distributions of dividends from certain subsidiaries according to the relevant tax jurisdictions is subject to judgement on the timing of the payment of the dividends or on whether certain subsidiaries of the Group are determined to be Chinese resident enterprises by the PRC governing tax authorities in the future. Management considered that it is not probable that the Group's subsidiaries in the PRC will distribute retained profits as at the end of the Relevant Periods in the foreseeable future, and accordingly no additional provision for withholding tax was made. Where the final outcome of these matters is different from the amounts originally rewarded, the difference will impact the deferred tax provision in the period in which the difference arises.

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of each of the Relevant Periods, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

Useful lives and residual values of items of property, plant and equipment

In determining the useful lives and residual values of items of property, plant and equipment, the Group periodically reviews the changes in market conditions, expected physical wear and tear, and the maintenance of the asset. The estimation of the useful life of the asset is based on historical experience

of the Group with similar assets that are used in a similar way. Depreciation amount will be adjusted if the estimated useful lives and/or the residual values of items of property, plant and equipment are different from previous estimation. Useful lives and residual values are reviewed, at the end of each of the Relevant Periods, based on changes in circumstances.

Current income tax and deferred income tax

The Group is subject to income taxes in Hong Kong and Mainland China. Estimation is required in determining the provision for taxation. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts originally recorded, the differences will impact on the current income tax and deferred income tax in the periods in which the differences arise.

Deferred tax assets relating to certain temporary differences are recognised as management considers it is probable that future taxable profit will be available against which the temporary differences can be utilised. The realisation of the deferred tax assets mainly depends on whether sufficient future profits or taxable temporary differences will be available in the future. In cases where the actual future profits generated are less than expected, a material reversal of deferred tax assets may arise, which will be recognised in profit or loss in the period in which such a reversal takes place.

Percentage of completion of construction contracts

The Group recognises revenue according to the percentage of completion of individual contracts of construction works, which requires estimation to be made by management. The stage of completion is estimated by reference to the actual costs incurred over the total budgeted costs. Due to the nature of the activity undertaken in construction works, the date at which the activity is entered into and the date at which the activity is completed usually fall into different accounting periods. Hence, the Group reviews and revises the percentage of completion of construction works. Where the actual contract revenue is less than expected or actual contract costs are more than expected, a foreseeable loss may arise.

Estimation of total budgeted costs and cost to completion for construction contracts

Total budgeted costs for construction contracts comprise (i) direct material costs and direct labour, (ii) costs of subcontracting, and (iii) an appropriation of variable and fixed construction overheads. In estimating the total budgeted costs for construction contracts, management makes reference to information such as (i) current offers from sub-contractors and suppliers, (ii) recent offers agreed with sub-contractors and suppliers, and (iii) professional estimation on material costs, labour costs and other costs.

Impairment of trade receivables and financial receivables

The Group maintains an allowance for estimated loss arising from the inability of its customers to make the required payments. The Group makes its estimates based on its customers' creditworthiness and historical write-off experience. If the financial condition of its customers will deteriorate such that the actual impairment loss might be higher than expected, the Group would be required to revise the basis for making the allowance and its future results would be affected.

Financial receivables

Estimation is exercised in determining the fair values of the financial receivables at initial recognition. These fair values are computed on the discounted cash flow method using a discount rate based upon the market-related rate for a similar instrument as at the date of initial recognition. The assumptions and estimates used can materially affect the fair values of the financial receivables.

5. OPERATING SEGMENT INFORMATION

For management purposes, the Group's operating businesses are structured and managed separately according to their nature. Each of the Group's operating segments represents a strategic business unit that provides services which are subject to risks and returns that are different from those of the other operating segments. Summary details of the operating segments are as follows:

- (a) the service concession arrangements segment engages in the design, construction, upgrade and operation of WTPs under the BOT arrangements or the operation of WTPs under the TOT arrangements;
- (b) the BT arrangements segment engages in the design, construction of municipal infrastructures or infrastructures related to WTPs;
- (c) the "others" segment comprises, principally, the Group's management services business, which provides operation and management ("O&M") services, construction services related to other construction service projects and operation services for other water treatments.

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

Segment assets and liabilities mainly comprise operating assets and liabilities that are directly attributable to the segment or can be allocated to the segment on a reasonable basis.

Segment assets exclude investment properties, intangible assets, deferred tax assets, unallocated prepayments, deposits and other receivables, pledged deposits, cash and cash equivalents and other unallocated head office and corporate assets as these assets are managed on a group basis.

Segment liabilities exclude interest-bearing bank borrowings for daily operation purposes, deferred tax liabilities and other unallocated head office and corporate liabilities as these liabilities are managed on a group basis.

Year ended 31 December 2011	Service concession arrangements	BT arrangements	Others	Total
	RMB'000	RMB'000	RMB'000	RMB'000
Segment revenue:				
Sales to external customers	545,588	183,344	5,954	734,886
Intersegment sales	—	—	—	—
	545,588	183,344	5,954	734,886
Segment results	278,641	69,067	1,526	349,234
<i>Reconciliation:</i>				
Other unallocated income and gains				11,050
Corporate and other unallocated expenses				(75,361)
Finance costs				(99,402)
Profit before tax				185,521
Segment assets	1,925,526	435,032	38,231	2,398,789
<i>Reconciliation:</i>				
Corporate and other unallocated assets				470,828
Total assets				2,869,617
Segment liabilities	1,196,673	124,539	14,882	1,336,094
<i>Reconciliation:</i>				
Corporate and other unallocated liabilities				844,936
Total liabilities				2,181,030
Other segment information:				
Impairment losses recognised in profit or loss	2,381	—	—	2,381
Depreciation and amortisation	338	—	—	338
Unallocated amounts				3,115
Total depreciation and amortisation				3,453
Capital expenditure	1,285	—	22,844	24,129
Unallocated amounts				2,392
Total capital expenditure*				26,521

* Capital expenditure consists of additions to property, plant and equipment and intangible assets.

Year ended 31 December 2012	Service concession arrangements	BT arrangements	Others	Total
	RMB'000	RMB'000	RMB'000	RMB'000
Segment revenue:				
Sales to external customers	704,209	293,165	1,941	999,315
Intersegment sales	—	—	—	—
	704,209	293,165	1,941	999,315
Segment results	339,234	108,910	334	448,478
<i>Reconciliation:</i>				
Unallocated income and gains				3,429
Corporate and other unallocated expenses				(84,938)
Finance costs				(133,900)
Profit before tax				233,069
Segment assets	2,390,370	799,188	36,080	3,225,638
<i>Reconciliation:</i>				
Corporate and other unallocated assets				651,162
Total assets				3,876,800
Segment liabilities	1,268,437	64,118	14,222	1,346,777
<i>Reconciliation:</i>				
Corporate and other unallocated liabilities				1,413,922
Total liabilities				2,760,699
Other segment information:				
Impairment losses recognised in profit or loss	1,281	—	—	1,281
Depreciation and amortisation	586	—	322	908
Unallocated amounts				3,455
Total depreciation and amortisation				4,363
Capital expenditure	1,802	—	3,968	5,770
Unallocated amounts				3,150
Total capital expenditure*				8,920

* Capital expenditure consists of additions to property, plant and equipment and intangible assets.

Year ended 31 December 2013	Service concession arrangements	BT arrangements	Others	Total
	RMB'000	RMB'000	RMB'000	RMB'000
Segment revenue:				
Sales to external customers	1,030,359	301,842	7,478	1,339,679
Intersegment sales	—	—	—	—
	1,030,359	301,842	7,478	1,339,679
Segment results	460,898	100,892	(48)	561,742
<i>Reconciliation:</i>				
Unallocated income and gains				4,139
Corporate and other unallocated expenses				(116,504)
Finance costs				(167,698)
Profit before tax				281,679
Segment assets	3,434,000	769,622	31,728	4,235,350
<i>Reconciliation:</i>				
Corporate and other unallocated assets				478,457
Total assets				4,713,807
Segment liabilities	1,866,434	209,888	13,154	2,089,476
<i>Reconciliation:</i>				
Corporate and other unallocated liabilities				1,271,601
Total liabilities				3,361,077
Other segment information:				
Investment in an associate	50,393	—	—	50,393
Share of profit and loss of an associate	4,005	—	—	4,005
Impairment losses recognised in profit or loss	1,278	—	—	1,278
Depreciation and amortisation	717	—	1,285	2,002
Unallocated amounts				3,967
Total depreciation and amortisation				5,969
Capital expenditure	1,658	—	49	1,707
Unallocated amounts				10,747
Total capital expenditure*				12,454

* Capital expenditure consists of additions to property, plant and equipment and intangible assets.

Geographical information**(a) Revenue from external customers**

	Year ended 31 December		
	2011	2012	2013
	RMB'000	RMB'000	RMB'000
Mainland China	<u>734,886</u>	<u>999,315</u>	<u>1,339,679</u>

The revenue information above is based on the locations of the customers.

(b) Non-current assets

	Year ended 31 December		
	2011	2012	2013
	RMB'000	RMB'000	RMB'000
Mainland China	<u>1,558,755</u>	<u>1,971,821</u>	<u>2,705,181</u>

All the non-current assets are located in Mainland China. The non-current asset information above excludes deferred tax assets.

Information about major customers

During the Relevant Periods, the revenue generated from the Group's customers who contributed to over 10% of the Group's revenue, are as follows:

Year ended 31 December 2011

	Service concession arrangements	BT arrangements	Total
	RMB'000	RMB'000	RMB'000
	Customer A	45,874	138,485
Customer B	120,373	42,678	163,051
Customer C	<u>97,311</u>	—	<u>97,311</u>
	<u>263,558</u>	<u>181,163</u>	<u>444,721</u>

Year ended 31 December 2012

	Service concession arrangements	BT arrangements	Total
	RMB'000	RMB'000	RMB'000
Customer A	130,665	26,315	156,980
Customer B	—	144,413	144,413
Customer C	17,275	118,741	136,016
Customer D	<u>100,009</u>	<u>—</u>	<u>100,009</u>
	<u>247,949</u>	<u>289,469</u>	<u>537,418</u>

Year ended 31 December 2013

	Service concession arrangements	BT arrangements	Total
	RMB'000	RMB'000	RMB'000
Customer A	—	214,974	214,974
Customer B	<u>136,270</u>	<u>11,227</u>	<u>147,497</u>
	<u>136,270</u>	<u>226,201</u>	<u>362,471</u>

6. REVENUE

The Group has entered into a number of service concession arrangements with the Grantors on a BOT or a TOT basis in respect of its WTPs. These service concession arrangements generally involve the Group as an operator in (i) constructing WTPs for those arrangements on a BOT basis; (ii) paying a specific amount for those arrangements on a TOT basis; and (iii) operating WTPs on behalf of the Grantors for periods ranging from 17 to 30 years (the "Service Concession Periods"), and the Group will be paid for its services over the Service Concession Periods at prices stipulated through a pricing mechanism.

The Group also carries out construction works of municipal infrastructures or infrastructures related to WTPs under BT arrangements for certain BT customers and agrees with these BT customers to have a repurchase agreement for the construction work ranging from three to four years.

Revenue represents: (1) an appropriate proportion of contract revenue of construction contracts under BOT arrangements, BT arrangements and other construction service projects, net of tax and government surcharges; (2) the revenue from operation of WTPs under BOT arrangements, TOT arrangements and O&M services; and (3) financial income on financial receivables. The amount of each significant category of revenue during each of the Relevant Periods is as follows:

	Year ended 31 December		
	2011	2012	2013
	RMB'000	RMB'000	RMB'000
Revenue from construction services	363,337	545,893	829,901
Revenue from operating services	261,889	315,293	328,008
Financial income	<u>109,660</u>	<u>138,129</u>	<u>181,770</u>
	<u>734,886</u>	<u>999,315</u>	<u>1,339,679</u>

7. OTHER INCOME AND GAINS

	Year ended 31 December		
	2011	2012	2013
	RMB'000	RMB'000	RMB'000
Bank interest income	2,039	2,615	3,356
Government grants (a)	11,169	6,700	7,088
Interest income from Chongqing Kangte and its affiliates	7,462	—	—
Arrangement fee from a BT customer	—	—	18,699
Bargain purchase gain on acquisition of subsidiaries (note 32)	—	—	18,529
Rental income less depreciation of investment properties	318	318	334
Gains on disposals of items of property, plant and equipment	—	—	20
Others	<u>1,231</u>	<u>496</u>	<u>429</u>
	<u>22,219</u>	<u>10,129</u>	<u>48,455</u>

Note:

- (a) Government grants represented the environmental protection funds for environmental technological improvements granted by government authorities. There are no unfulfilled conditions or contingencies relating to these grants.

8. PROFIT BEFORE TAX FROM CONTINUING OPERATIONS

The Group's profit before tax is arrived at after charging/(crediting):

	Notes	Year ended 31 December		
		2011	2012	2013
		RMB'000	RMB'000	RMB'000
Cost for construction services		266,284	397,001	650,535
Cost for operation services		130,537	160,536	175,723
Total of cost of sales		396,821	557,537	826,258
Depreciation of property, plant and equipment	15	3,125	4,018	5,609
Amortisation of intangible assets	17	70	87	102
Impairment of trade receivables	24	2,381	1,281	1,278
Minimum lease payments under operating leases for buildings		93	793	2,029
Auditors' remuneration		1,455	1,873	2,800
Employee benefit expense (including Directors' and chief executive's remuneration (note 10)):				
Wages, salaries and allowances, social securities and benefits		47,390	62,698	77,179
Pension scheme contributions (defined contribution scheme)		3,765	6,315	8,633
Total employee benefit expense		51,155	69,013	85,812
Operating lease income (note 34(a))		(576)	(576)	(592)
Less: depreciation of investment properties	16	258	258	258
		(318)	(318)	(334)
Bank interest income	7	(2,039)	(2,615)	(3,356)
Government grants	7	(11,169)	(6,700)	(7,088)
Interest income from Chongqing Kangte and its affiliates	7	(7,462)	—	—
Arrangement fee from a BT customer	7	—	—	(18,699)
Bargain purchase gain on acquisition of subsidiaries	7,32	—	—	(18,529)
Gains on disposals of items of property, plant and equipment, net	7	—	—	(20)
Foreign exchange differences		—	2,411	2,661

9. FINANCE COSTS

	Year ended 31 December		
	2011	2012	2013
	RMB'000	RMB'000	RMB'000
Interest on bank borrowings	<u>99,402</u>	<u>133,900</u>	<u>167,698</u>

10 DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION

Directors' and chief executive's remuneration during the Relevant Periods, disclosed pursuant to the Listing Rules and Section 161 of the Hong Kong Companies Ordinance, is as follows:

	Year ended 31 December		
	2011	2012	2013
	RMB'000	RMB'000	RMB'000
Fees	<u>—</u>	<u>—</u>	<u>—</u>
Other emoluments:			
- Salaries, housing benefits, other allowances and benefits in kind	734	2,966	4,903
- Pension scheme contributions (defined contribution scheme)	<u>40</u>	<u>145</u>	<u>131</u>
Total	<u>774</u>	<u>3,111</u>	<u>5,034</u>

(i) Independent non-executive directors

The fees paid to independent non-executive directors during the Relevant Periods were as follows:

	Year ended 31 December 2013
	RMB'000
Mr. Tsui Yiu Wa Alec	<u>—</u>
Mr. Yuan Shaoli	<u>—</u>
Mr. Song Qianwu	<u>—</u>
	<u>—</u>
	<u>—</u>

Mr. Tsui Yiu Wa Alec, Mr. Yuan Shaoli and Mr. Song Qianwu were appointed as independent non-executive directors with effect from October 2013. No independent non-executive directors were appointed for the years ended 31 December 2011 and 2012.

(ii) Executive directors, non-executive directors and the chief executive

	Fees	Salaries, housing benefits, other allowances and benefits in kind	Pension scheme contributions	Total remuneration
	RMB'000	RMB'000	RMB'000	RMB'000
Year ended 31 December 2011				
<u>Executive director:</u>				
Mr. Zhao Juanxian (趙雋賢)				
(Chairman)	—	734	40	774
	—	734	40	774
Year ended 31 December 2012				
<u>Executive directors:</u>				
Mr. Zhao Juanxian (趙雋賢)				
(Chairman)	—	1,285	36	1,321
Ms. Liu Zhiwei (劉志偉) (i)	—	547	34	581
Mr. Gu Weiping (顧衛平) (i)	—	536	36	572
Mr. Liang Zuping (梁祖平) (i)	—	264	40	304
	—	2,632	146	2,778
<u>Non-executive director:</u>				
Mr. Zeng Guangyu (曾光宇) (ii)	—	—	—	—
<u>Chief executive:</u>				
Mr. Zhang Weizhong (張為眾) (iii)	—	333	—	333
	—	2,965	146	3,111
Year ended 31 December 2013				
<u>Executive directors:</u>				
Mr. Zhao Juanxian (趙雋賢)				
(Chairman)	—	1,807	—	1,807
Mr. Zhang Weizhong (張為眾)				
(Chief executive) (iii)	—	1,501	—	1,501
Ms. Liu Zhiwei (劉志偉)	—	549	36	585
Mr. Gu Weiping (顧衛平)	—	496	43	539
Mr. Liang Zuping (梁祖平) (iii)	—	60	9	69
Mr. Wang Litong (王立彤) (iv)	—	490	43	533
	—	4,903	131	5,034
<u>Non-executive directors:</u>				
Mr. Zeng Guangyu (曾光宇) (v)	—	—	—	—
Mr. Zhuang Ping (莊平) (v)	—	—	—	—
	—	—	—	—
	—	4,903	131	5,034

- (i) Ms. Liu Zhiwei, Mr. Gu Weiping and Mr. Liang Zuping were appointed as executive directors with effect from May 2012.
- (ii) Mr. Zeng Guangyu was appointed as a non-executive director with effect from May 2012.
- (iii) Mr. Zhang Weizhong was appointed as the chief executive of the Company with effect from August 2012, he then was appointed as an executive director of the Company in replacement of Mr. Liang Zuping with effect from March 2013.
- (iv) Mr. Wang Litong was appointed as an executive director with effect from October 2013.
- (v) Mr. Zhuang Ping was appointed as a non-executive director in replacement of Mr. Zeng Guangyu with effect from October 2013.

There was no arrangement under which the Directors waived or agreed to waive any remuneration during the Relevant Periods.

11. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees included one director during the year ended 31 December 2011, three directors during the year ended 31 December 2012 and two directors during the year ended 31 December 2013, respectively, details of whose remuneration are set out in note 10 above. Details of the remuneration for the Relevant Periods of the remaining highest paid employees who are neither a director nor a chief executive of the Company are as follows:

	Year ended 31 December		
	2011	2012	2013
	RMB'000	RMB'000	RMB'000
Salaries, housing benefits, other allowances and benefits in kind	1,559	934	2,621
Pension scheme contributions (defined contribution scheme)	144	53	76
	<u>1,703</u>	<u>987</u>	<u>2,697</u>

The number of non-director and non-chief executive highest paid employees whose remuneration fell within the following bands is as follows:

	Year ended 31 December		
	2011	2012	2013
Nil to HK\$1,000,000	4	2	1
HK\$1,000,000 to HK\$1,500,000	—	—	2
	<u>4</u>	<u>2</u>	<u>3</u>

12. INCOME TAX EXPENSE

Pursuant to The PRC Enterprise Income Tax Law Implementing Regulations (中華人民共和國企業所得稅法實施條例), most of the subsidiaries established in the PRC, engaged in the operations of waste water treatment projects, are eligible for tax holiday of a three-year full exemption followed by a three-year half exemption commencing from their respective first year generating operating revenue (the “3+3 Tax Holiday”). At the end of the Relevant Periods, these subsidiaries were already qualified for the 3+3 Tax Holiday or in the process of preparation and submission of the required documents to the respective tax authorities to apply for the 3+3 Tax Holiday. In addition, certain subsidiaries, engaged in the operations of waste water treatment projects, are entitled to enterprise income tax based on 90% of their revenues.

Pursuant to Caishui [2011] No.58 Circular of the Ministry of Finance, the State Administration of Taxation, the General Administration of Customs on Issues Relating to Preferential Tax Policies for the Development of the Western Region (財政部、國家稅務總局、海關總署關於西部大開發稅收優惠政策問題的通知), certain subsidiaries operated in the western region of Mainland China were subject to a preferential corporate income tax rate of 15%, provided the revenues from principal activities comprise of more than 70% of the total revenues in the year.

Under the relevant PRC Corporate Income Tax Law and respective regulations, except for preferential treatments available to certain subsidiaries as mentioned above, other subsidiaries within the Group were subject to corporate income tax at the statutory rate of 25%.

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

No provision for Hong Kong profits tax has been made as the Group had no assessable profits derived from or earned in Hong Kong during the Relevant Periods.

The components of income tax expense for the Relevant Periods are as follows:

	Year ended 31 December		
	2011	2012	2013
	RMB'000	RMB'000	RMB'000
Current income tax			
- Mainland China	11,450	11,356	14,455
Deferred income tax (note 21)	17,181	24,340	34,595
Income tax charge for the year	<u>28,631</u>	<u>35,696</u>	<u>49,050</u>

A reconciliation of the income tax expense applicable to profit before tax using the statutory income tax rate applicable in Mainland China to the income tax expense at the Group's effective income tax rate for the Relevant Periods is as follows:

	Year ended 31 December		
	2011	2012	2013
	RMB'000	RMB'000	RMB'000
Profit before tax	<u>185,521</u>	<u>233,069</u>	<u>281,679</u>
Income tax at the statutory income tax rate of 25%	46,380	58,267	70,419
Effect of lower income tax rates for specific provinces or enacted by local authorities	(17,942)	(22,460)	(15,201)
Income not subject to tax	(653)	(1,611)	(2,618)
Expenses not deductible for tax purposes	846	1,500	2,083
Tax effect of share of profit and loss of an associate	—	—	(1,001)
Tax effect of bargain purchase gains on acquisition of subsidiaries	<u>—</u>	<u>—</u>	<u>(4,632)</u>
Income tax charge for the year	<u>28,631</u>	<u>35,696</u>	<u>49,050</u>
The Group's effective rate	15.43%	15.32%	17.41%

13. PROFIT ATTRIBUTABLE TO OWNERS OF THE PARENT

The consolidated profit attributable to owners of the parent for the Relevant Periods includes nil, a loss of RMB335,000 and a loss of RMB230,000 which had been dealt with in the financial statements of the Company (note 31(b)).

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

No earnings per share information is presented as its inclusion, for the purpose of this report, is not considered meaningful due to the Reorganisation as disclosed in note 1 and the basis of presentation of the results for the Relevant Periods as disclosed in note 2.1 above.

15. PROPERTY, PLANT AND EQUIPMENT

Group	Buildings and other infrastructure	Machinery	Office equipment and others	Construction in progress	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Cost:					
At 1 January 2011	32,789	84	15,493	4,888	53,254
Additions	—	—	1,959	24,164	26,123
Disposals	—	—	(5)	—	(5)
Disposal of a subsidiary (note 33)	—	—	(1,465)	—	(1,465)
At 31 December 2011	32,789	84	15,982	29,052	77,907
Additions	—	15	3,955	4,854	8,824
Transfers	22,593	9,097	9	(31,699)	—
At 31 December 2012	55,382	9,196	19,946	2,207	86,731
Additions	348	2	2,319	9,623	12,292
Acquisition of subsidiaries (note 32)	—	—	1,266	—	1,266
Disposals	—	(13)	(2,095)	—	(2,108)
Transfers	1,927	11	—	(1,938)	—
At 31 December 2013	57,657	9,196	21,436	9,892	98,181
Accumulated depreciation:					
At 1 January 2011	(1,630)	(19)	(5,086)	—	(6,735)
Depreciation provided for the year	(1,473)	(11)	(1,641)	—	(3,125)
Disposals	—	—	2	—	2
Disposal of a subsidiary (note 33)	—	—	161	—	161
At 31 December 2011	(3,103)	(30)	(6,564)	—	(9,697)
Depreciation provided for the year	(1,870)	(150)	(1,998)	—	(4,018)
At 31 December 2012	(4,973)	(180)	(8,562)	—	(13,715)
Depreciation provided for the year	(2,477)	(583)	(2,549)	—	(5,609)
Acquisition of subsidiaries (note 32)	—	—	(527)	—	(527)
Disposals	—	13	1,960	—	1,973
At 31 December 2013	(7,450)	(750)	(9,678)	—	(17,878)
Net carrying amount:					
At 31 December 2013	<u>50,207</u>	<u>8,446</u>	<u>11,758</u>	<u>9,892</u>	<u>80,303</u>
At 31 December 2012	<u>50,409</u>	<u>9,016</u>	<u>11,384</u>	<u>2,207</u>	<u>73,016</u>
At 31 December 2011	<u>29,686</u>	<u>54</u>	<u>9,418</u>	<u>29,052</u>	<u>68,210</u>

The net carrying amounts of certain buildings of approximately RMB29,686,000, RMB32,882,000 and nil as at 31 December 2011, 2012 and 2013, respectively, are pledged to secure certain bank loans granted to the Group (note 29).

The net carrying amounts of certain infrastructures of approximately RMB12,503,000, RMB17,528,000, and RMB16,508,000 as at 31 December 2011, 2012 and 2013, respectively, are situated on a piece of land which is legally owned and provided for use by the non-controlling shareholder of Jilin Kangda, a subsidiary of the Group. The subsidiary is contractually authorised to use the land without charge throughout its operating period.

As the payments for land lease cannot be separated reliably from the payments for purchase of office buildings, the entire payments are included in the costs of the relevant buildings.

16. INVESTMENT PROPERTIES

Group

	RMB'000
Cost:	
At 1 January 2011 and 31 December 2011, 2012 and 2013	5,715
Accumulated depreciation:	
At 1 January 2011	(2,575)
Depreciation provided for the year	<u>(258)</u>
At 31 December 2011	(2,833)
Depreciation provided for the year	<u>(258)</u>
At 31 December 2012	(3,091)
Depreciation provided for the year	<u>(258)</u>
At 31 December 2013	<u>(3,349)</u>
Net carrying amount:	
At 31 December 2013	<u>2,366</u>
At 31 December 2012	<u>2,624</u>
At 31 December 2011	<u>2,882</u>

The Group's investment properties consist of two commercial properties in Chongqing. The fair values of the investment properties as at 31 December 2011, 2012 and 2013 based on valuations performed by CBRE Limited, independent professionally qualified valuers, were RMB11,200,000, RMB11,500,000 and RMB11,900,000. Each year, the Group's chief financial officer decides to appoint which external valuer to be responsible for the external valuations of the Group's investment properties. Selection criteria include market knowledge, reputation, independence and whether professional standards are maintained. The Group's chief financial officer has discussions with the valuer on the valuation assumptions and valuation results when the valuations are performed.

The investment properties are leased to third parties under operating leases, further summary details of which are included in note 34(a) to the Financial Information.

The net carrying amounts of certain investment properties of approximately RMB2,882,000, RMB2,624,000, and RMB1,119,000 as at 31 December 2011, 2012 and 2013 are pledged to secure certain bank loans granted to the Group (note 29).

17. INTANGIBLE ASSETS

Group

	<u>Software</u>
	<u>RMB'000</u>
Cost:	
At 1 January 2011	476
Additions	<u>398</u>
At 31 December 2011	874
Additions	<u>96</u>
At 31 December 2012	970
Additions	<u>162</u>
At 31 December 2013	1,132
Accumulated amortisation:	
At 1 January 2011	(28)
Amortisation provided during the year	<u>(70)</u>
At 31 December 2011	(98)
Amortisation provided during the year	<u>(87)</u>
At 31 December 2012	(185)
Amortisation provided during the year	<u>(102)</u>
At 31 December 2013	<u>(287)</u>
Net carrying amount:	
At 31 December 2013	<u><u>845</u></u>
At 31 December 2012	<u><u>785</u></u>
At 31 December 2011	<u><u>776</u></u>

18. INVESTMENT IN SUBSIDIARIES

Company

	31 December		
	2011	2012	2013
	RMB'000	RMB'000	RMB'000
Unlisted investments, at cost			
- Kangda Investment	—	548,299	548,299
Loan to Kangda Hong Kong	—	50,273	50,273
	—	598,572	598,572

The loan to Kangda Hong Kong of HK\$62,000,000, equivalent to RMB50,273,000 as at the borrowing date, is unsecured, interest-free and has no fixed terms of repayment. In the opinion of the Directors, this loan is considered as a quasi-equity loan as the settlement of the loan is neither planned nor likely to occur in the foreseeable future because it is in substance, a part of the Company's investment in Kangda Hong Kong.

Particulars of all subsidiaries of the Company are set out in note 1 of Section II above.

As at 31 December 2013, the investment in a subsidiary, Beijing Chang Sheng, was pledged to secure certain bank loans granted to the Group (note 29).

19. INVESTMENT IN AN ASSOCIATE

The Group has a 20% equity interest in Nanchang Qingshanhu Project Co., Ltd., which engages in the operation and management of WTPs in Nanchang city of China. Nanchang Qingshanhu Project Co., Ltd. was originally an associate of Beijing Chang Sheng, which was acquired by the Group on 3 May 2013. More details please refer to note 32.

Company name	Place and date of incorporation/ registration	Issued and fully paid-up capital	Percentage of equity interest attributable to the Group		Principal activities
			Direct	Indirect	
Nanchang Qingshanhu Project Co., Ltd. (南昌青山湖污水處理有限公司) [#]	The PRC/ Mainland China 10 November 2002	RMB99,326,000	—	20	Construction, operation and management of WTPs in Mainland China

[#] The English name of the company registered in the PRC represents the best efforts of the management of the Company in directly translating the Chinese name of the company as no English name has been registered.

The percentages of voting power and profit sharing are the same as the percentage of equity interests attributable to the Group.

Nanchang Qingshanhu Project Co., Ltd. is a private entity that is not listed on any public exchange. The following table illustrates the summarised financial information of the Group's interests in Nanchang Qingshanhu Project Co., Ltd.:

Group	31 December 2013
	RMB'000
Current assets	148,437
Non-current assets	207,409
Current liabilities	(28,307)
Non-current liabilities	<u>(75,575)</u>
Net assets	<u>251,964</u>
Proportion of the Group's ownership	20%
Carrying amount of the interest in an associate	<u>50,393</u>
	Eight-month period from acquisition date to 31 December 2013
	RMB'000
Revenue	54,294
Profit for the year	20,025
Other comprehensive income	—
Total comprehensive income	<u>20,025</u>
Proportion of the Group's ownership	20%
Share of profit and loss of an associate	<u>4,005</u>
Dividends received	<u>—</u>

20. FINANCIAL RECEIVABLES

Group

	31 December		
	2011	2012	2013
	RMB'000	RMB'000	RMB'000
Receivables for service concession arrangements	1,848,243	2,221,000	3,179,130
Receivables for BT arrangements	66,799	149,264	106,542
Provision for impairment	—	—	—
	1,915,042	2,370,264	3,285,672
Portion classified as current	428,155	541,868	714,398
Non-current portion	1,486,887	1,828,396	2,571,274

Receivables for service concession arrangements arose from the service concession contracts to build and operate WTPs and were recognised to the extent that the Group has an unconditional contractual right to receive cash from or at the direction of the grantor.

Receivables for BT arrangements arose from the BT contracts to build municipal infrastructures or infrastructures related to WTPs and were recognised when the BT customers completed inspection process and entered into repurchase agreements with the Group, according to which, the Group has an unconditional contractual right to receive cash from the BT customers.

Financial receivables were unbilled receivables, and were neither past due nor impaired. Financial receivables were mainly due from governmental authorities in Mainland China, as grantors in respect of the Group's service concession arrangements or BT customers in respect of the Group's BT arrangements. Based on past experience, the Directors of the Company are of the opinion that no provision for impairment is necessary in respect of these balances as there has not been a significant change in credit quality and the balances still considered fully recoverable. The Group does not hold any collateral or other credit enhancements over these balances.

The carrying amounts of certain financial receivables of approximately RMB1,574,883,000, RMB1,889,944,000 and RMB2,051,175,000 as at 31 December 2011, 2012 and 2013 are pledged to secure certain bank loans granted to the Group (note 29).

21. DEFERRED TAX ASSETS AND DEFERRED TAX LIABILITIES

The deferred tax assets and liabilities recognised by the Group, and the movements thereon, during the Relevant Periods are as follows:

	<u>BT projects</u>	<u>Provision for impairment of trade receivables</u>	<u>Losses available for offsetting against future taxable profits</u>	<u>Total</u>
	RMB'000	RMB'000	RMB'000	RMB'000
Deferred tax assets				
At 1 January 2011	2,452	319	—	2,771
Deferred tax credited to profit or loss during the year	<u>1,463</u>	<u>320</u>	<u>—</u>	<u>1,783</u>
At 31 December 2011	3,915	639	—	4,554
Deferred tax credited to profit or loss during the year	<u>(177)</u>	<u>320</u>	<u>—</u>	<u>143</u>
At 31 December 2012	3,738	959	—	4,697
Deferred tax assets recognised from acquisition of subsidiaries (note 32)	1,916	—	—	1,916
Deferred tax credited to profit or loss during the year	<u>2,487</u>	<u>319</u>	<u>6,030</u>	<u>8,836</u>
At 31 December 2013	<u><u>8,141</u></u>	<u><u>1,278</u></u>	<u><u>6,030</u></u>	<u><u>15,449</u></u>

	Service concession arrangements	Transaction costs for bank borrowings	Total
	RMB'000	RMB'000	RMB'000
Deferred tax liabilities			
At 1 January 2011	(73,521)	(1,894)	(75,415)
Deferred tax charged to profit or loss during the year	<u>(19,078)</u>	<u>114</u>	<u>(18,964)</u>
At 31 December 2011	(92,599)	(1,780)	(94,379)
Deferred tax charged to profit or loss during the year	<u>(24,194)</u>	<u>(289)</u>	<u>(24,483)</u>
At 31 December 2012	(116,793)	(2,069)	(118,862)
Deferred tax liabilities recognised from acquisition of subsidiaries (note 32)	(9,132)	—	(9,132)
Deferred tax charged to profit or loss during the year	<u>(42,587)</u>	<u>(844)</u>	<u>(43,431)</u>
At 31 December 2013	<u><u>(168,512)</u></u>	<u><u>(2,913)</u></u>	<u><u>(171,425)</u></u>

Pursuant to the PRC Corporate Income Tax Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in Mainland China. The requirement is effective from 1 January 2008 and applies to earnings after 31 December 2007. The Group is therefore liable to withholding taxes on dividends distributed by those subsidiaries established in Mainland China in respect of earnings generated from 1 January 2008.

At the end of the Relevant Periods, no deferred tax liability has been recognised for withholding taxes that would be payable on unremitted earnings that are subject to withholding taxes of the Group's subsidiaries established in the PRC. As approved by the Directors, the profits retained at the end of the Relevant Periods will be utilised for development and not be distributed in the foreseeable future.

There are no income tax consequences attaching to the payment of dividends by the Company to its shareholders.

22. INVENTORIES**Group**

	31 December		
	2011	2012	2013
	RMB'000	RMB'000	RMB'000
Raw materials	<u>5,214</u>	<u>5,313</u>	<u>3,108</u>

No impairments in the respect of inventories were recorded at the end of each of the Relevant Periods.

23. CONSTRUCTION CONTRACTS**Group**

	31 December		
	2011	2012	2013
	RMB'000	RMB'000	RMB'000
Contract costs incurred plus recognised profits less recognised losses to date	450,036	737,817	1,039,849
Less: Progress billings	<u>(102,497)</u>	<u>(350,734)</u>	<u>(488,524)</u>
Gross amount due from contract customers for contract work	<u>347,539</u>	<u>387,083</u>	<u>551,325</u>

24. TRADE AND BILLS RECEIVABLES

The Group's major customers are the PRC government authorities or agencies. The Group not only provides construction service and operation service pursuant to its service concession arrangements, but also provides construction service under other construction service projects and BT arrangements.

Trade and bill receivables represent the unsettled amounts being billed to the customers in accordance with the terms specified in the contracts governing the relevant transactions. The Group does not have a standardised and universal credit period granted to the construction service customers. The credit period of individual construction service customer is considered on a case-by-case basis. Trade receivables are interest-free.

Group

	31 December		
	2011	2012	2013
	RMB'000	RMB'000	RMB'000
Trade receivables			
Receivables for service concession arrangements	51,284	72,166	90,295
Receivables for BT arrangements	3,782	142,579	76,759
Receivables for other construction service projects and other water treatment	15,117	9,590	6,474
Provision for impairment	(2,555)	(3,836)	(5,114)
	<u>67,628</u>	<u>220,499</u>	<u>168,414</u>
Bills receivable	<u>—</u>	<u>—</u>	<u>60,948</u>
	<u><u>67,628</u></u>	<u><u>220,499</u></u>	<u><u>229,362</u></u>

An aged analysis of the Group's trade receivables, based on the invoice date or billing date and net of provision for impairment of trade receivables, at the end of each of the Relevant Periods is as follows:

	31 December		
	2011	2012	2013
	RMB'000	RMB'000	RMB'000
Within 3 months	44,302	84,478	114,900
4 to 6 months	14,430	51,382	31,837
7 to 12 months	1,486	72,827	8,094
Over 12 months	7,410	11,812	13,583
	<u>67,628</u>	<u>220,499</u>	<u>168,414</u>

An aged analysis of the trade receivables, that are neither individually nor collectively considered to be impaired, is as follows:

	31 December		
	2011	2012	2013
	RMB'000	RMB'000	RMB'000
Neither past due nor impaired	46,418	194,995	143,124
Past due but not impaired:			
Less than 3 months past due	16,573	11,906	9,652
3 to 6 months past due	1,822	6,075	3,463
Over 6 months past due	260	3,687	7,061
	<u>65,073</u>	<u>216,663</u>	<u>163,300</u>

Receivables that were neither past due nor impaired relate to different local government authorities or agencies for whom there was no recent history of default.

Receivables that were past due but not impaired relate to government authorities or agencies that have a good track record with the Group. Based on past experience, the Directors are of the opinion that no provision for impairment is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral or other credit enhancements over these balances.

Movements in the provision for impairment of trade receivables are as follows:

	Year ended 31 December		
	2011	2012	2013
	RMB'000	RMB'000	RMB'000
At beginning of the year	1,277	2,555	3,836
Impairment for the year (note 8)	2,381	1,281	1,278
Written off	<u>(1,103)</u>	<u>—</u>	<u>—</u>
At end of the year	<u>2,555</u>	<u>3,836</u>	<u>5,114</u>

Included in the above provision for impairment of trade receivables is provision for individually impaired trade receivables of approximately RMB5,110,000, RMB7,672,000 and RMB10,228,000 as at 31 December 2011, 2012 and 2013, respectively. The individually impaired trade receivables relate to government authorities that were in financial difficulties or in default or delinquency in payments. The Group does not hold any collateral or other credit enhancements over these balances.

During the year ended 31 December 2013, Chongqing Kangda and Gaomi Zhongya, subsidiaries of the Group, endorsed certain bills receivable accepted by banks in Mainland China (the "Derecognised Bills") to certain of their suppliers in order to settle the trade payables to such

suppliers with a carrying amount in aggregate of RMB30,972,000. The Derecognised Bills had a maturity of twelve months. In accordance with the Law of Negotiable Instruments in the PRC, the holders of the Derecognised Bills have a right of recourse against the Group if the banks default (the "Continuing Involvement"). In the opinion of the Directors, the Group has transferred substantially all risks and rewards relating to the Derecognised Bills. Accordingly, it has derecognised the full carrying amounts of the Derecognised Bills and the associated trade payables. The maximum exposure to loss from the Group's Continuing Involvement in the Derecognised Bills and the undiscounted cash flows to repurchase these Derecognised Bills equal to their carrying amounts. In the opinion of the Directors, the fair values of the Group's Continuing Involvement in the Derecognised Bills are not significant.

During the year ended 31 December 2013, the Group has not recognised any gain or loss on the date of transfer of the Derecognised Bills. No gains or losses were recognised from the Continuing Involvement, both during the year ended 31 December 2013 or cumulatively. The endorsement has been made evenly throughout the year ended 31 December 2013.

The carrying amounts of certain trade receivables of approximately RMB50,262,000, RMB104,983,000 and RMB58,712,000 as at 31 December 2011, 2012 and 2013 are pledged to secure certain bank loans granted to the Group (note 29).

25. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

Group

	31 December		
	2011	2012	2013
	RMB'000	RMB'000	RMB'000
Amounts due from Chongqing Kangte and its affiliates (note (a))	145,778	—	—
Prepayments	7,755	14,116	21,655
Staff advances	2,407	1,562	3,221
Other receivable from a BT customer (note (b))	—	100,000	—
Deposits for a TOT project	—	30,000	—
Deposits for acquisition of Beijing Chang Sheng (note 32)	—	37,000	—
Deposits and other receivables (note (c))	28,617	29,746	55,222
Less: Provision for impairment	—	—	—
	184,557	212,424	80,098
Less: non-current portion	—	67,000	—
Current portion	184,557	145,424	80,098

Company

	31 December		
	2011	2012	2013
	RMB'000	RMB'000	RMB'000
Amounts due from subsidiaries	—	2,006	2,611
Less: Provision for impairment	—	—	—
Current portion	<u>—</u>	<u>2,006</u>	<u>2,611</u>

Notes:

- (a) The amounts represent loans to Chongqing Kangte and its affiliates to finance their operations which were unsecured, interest-bearing at rates from 6.39% to 7.22% and with a fixed maturity of one year. The carrying amounts as at 31 December 2011 were repaid by Chongqing Kangte and its affiliates at the beginning of the year 2012 and no such borrowings were provided for the rest of the Relevant Periods.
- (b) The amount represents an advance provided to a BT customer to facilitate the BT customer to fulfil its obligation on preliminary work required for a BT project. The amount was repaid by the BT customer during the year ended 31 December 2013.
- (c) The deposits and other receivables mainly represent amounts due from third parties, construction project bidding deposits and other various deposits required for the Group's business operations.

No impairment losses in respect of prepayments, deposits and other receivables were recorded at the end of each of the Relevant Periods as the Group is satisfied with the recoverability of the amounts.

The financial assets included in prepayments, deposits and other receivables were neither past due nor impaired and relate to balances for which there was no recent history of default.

26. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

Group

	31 December		
	2011	2012	2013
	RMB'000	RMB'000	RMB'000
Cash and bank balances	273,215	600,095	414,886
Less: Pledged deposits (note 27 (a))	<u>(27,441)</u>	<u>(56,341)</u>	<u>(139,324)</u>
Cash and cash equivalents	<u>245,774</u>	<u>543,754</u>	<u>275,562</u>
Cash and bank balances denominated in:			
- RMB	245,774	411,519	261,464
- United States dollars	—	56,714	242
- Hong Kong dollars	<u>—</u>	<u>75,521</u>	<u>13,856</u>
	<u>245,774</u>	<u>543,754</u>	<u>275,562</u>

Company

	31 December		
	2011	2012	2013
	RMB'000	RMB'000	RMB'000
Cash and cash equivalents	<u>—</u>	<u>479</u>	<u>241</u>
Cash and bank balances denominated in:			
- Hong Kong dollars	<u>—</u>	<u>479</u>	<u>241</u>

The RMB is not freely convertible into other currencies. However, under Mainland China's prevailing rules and regulations over foreign exchange, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. The bank balances and pledged deposits are deposited with creditworthy banks with no recent history of default. The carrying amounts of cash and cash equivalents and pledged deposits in the consolidated statements of financial position approximate to their fair values.

27. TRADE AND BILLS PAYABLES

Trade and bills payables are non-interest-bearing. The credit periods granted by each individual supplier are on a case-by-case basis and set out in the supplier contracts.

For retention money payables, included in trade payables, in respect of guarantees granted by the suppliers, the due dates usually range from one to two years after the completion of the construction work or the preliminary acceptance of equipment.

Group

	31 December		
	2011	2012	2013
	RMB'000	RMB'000	RMB'000
Bills payable (note (a))	56,522	88,860	178,883
TOT payables (note (b))	114,260	72,025	37,044
Trade payables	210,025	251,061	327,965
	<u>380,807</u>	<u>411,946</u>	<u>543,892</u>
Less: non-current portion	3,730	4,251	6,440
Current portion	<u>377,077</u>	<u>407,695</u>	<u>537,452</u>

Notes:

- (a) The Group's bills payable are secured by the pledged deposits amounting to RMB27,441,000, RMB56,341,000 and RMB139,324,000, respectively, at the end of each of the Relevant Periods.
- (b) TOT payables represented amounts due to the Grantors based on payment schedules set out in the relevant TOT contracts at the end of each of the Relevant Periods.

An aged analysis of the Group's trade and bills payables at the end of each of the Relevant Periods is as follows:

Group

	31 December		
	2011	2012	2013
	RMB'000	RMB'000	RMB'000
Within 3 months	93,893	67,307	83,160
3 months to 6 months	105,437	162,452	231,451
7 months to 12 months	128,541	74,119	161,026
More than 12 months	52,936	108,068	68,255
	<u>380,807</u>	<u>411,946</u>	<u>543,892</u>

The carrying amounts of the current portion of the trade and bills payables approximate to their fair values.

28. OTHER PAYABLES AND ACCRUALS**Group**

	31 December		
	2011	2012	2013
	RMB'000	RMB'000	RMB'000
Accrued salaries, wages and benefits	1,245	6,895	6,621
Interest payables	3,099	4,091	5,246
Other taxes payables	12,312	11,420	13,714
Amounts due to a non-controlling shareholder of Jilin Kangda*	7,982	10,008	10,900
Other payables	2,184	7,597	16,975
	<u>26,822</u>	<u>40,011</u>	<u>53,456</u>

* The amounts were provided by the non-controlling shareholder of Jilin Kangda for project construction of Jilin Kangda. The amounts are unsecured, interest-free and have no fixed terms of repayment.

Company

	31 December		
	2011	2012	2013
	RMB'000	RMB'000	RMB'000
Other payables	—	14	611

Other payables are non-interest-bearing and have no fixed terms of repayment.

29. INTEREST-BEARING BANK BORROWINGS

Group

	Effective interest rate (%)	Maturity	31 December		
			2011	2012	2013
			RMB'000	RMB'000	RMB'000
Current					
Short term bank loans - unsecured	5.47-6.30	2012-2014	100,000	100,000	50,000
Short term bank loans - secured	5.31-7.87	2012-2014	235,000	234,000	265,000
Current portion of long term bank loans - unsecured	6.46-6.88	2014	—	—	13,800
Current portion of long term bank loans - secured	6.40-8.00	2012-2014	327,412	434,171	456,541
			<u>662,412</u>	<u>768,171</u>	<u>785,341</u>
Non-current					
Long term bank loans - unsecured	6.88-7.38	2015-2022	—	—	158,452
Long term bank loans - secured	5.60-8.00	2013-2023	1,006,827	1,415,632	1,643,596
			<u>1,006,827</u>	<u>1,415,632</u>	<u>1,802,048</u>
			<u>1,669,239</u>	<u>2,183,803</u>	<u>2,587,389</u>

All the interest-bearing bank borrowings denominated in RMB.

The maturity profile of the interest-bearing bank borrowings as at the end of each of the Relevant Periods is as follows:

	31 December		
	2011	2012	2013
	RMB'000	RMB'000	RMB'000
Analysed into:			
Bank loans repayable:			
Within 3 months	166,325	102,785	79,248
3 months to 6 months	90,625	301,125	262,390
6 months to 1 year	405,462	364,261	443,703
In the second year	260,187	594,004	710,728
In the third to fifth years, inclusive	575,282	664,290	643,604
Beyond five years	171,358	157,338	447,716
	<u>1,669,239</u>	<u>2,183,803</u>	<u>2,587,389</u>

The above secured bank borrowings are secured by certain assets with carrying values as follows:

	31 December		
	2011	2012	2013
	RMB'000	RMB'000	RMB'000
Property, plant and equipment (note 15)	29,686	32,882	—
Investment properties (note 16)	2,882	2,624	1,119
Financial receivables (note 20)	1,574,883	1,889,944	2,051,175
Trade and bills receivables (note 24)	<u>50,262</u>	<u>104,983</u>	<u>58,712</u>

The Group's bank borrowings of approximately RMB117,700,000 at 31 December 2013 were secured by the investment in the subsidiary, Beijing Chang Sheng (note 18).

The Group's bank borrowings of approximately RMB872,850,000, RMB1,445,875,000 and RMB1,262,125,000 at 31 December 2011, 2012 and 2013, respectively, were guaranteed by the Controlling Shareholders and certain other related parties (note 37(a)).

30. ISSUED CAPITAL

	31 December 2011		
	Number of shares	Nominal value	Nominal value
		HK\$	RMB
Issued and fully paid:			
Ordinary shares of HK\$0.01 each	<u>1</u>	<u>0.01</u>	<u>0.01</u>

31 December 2012 and 2013

	Number of shares	Nominal value	Nominal value
		HK\$	RMB
Issued and fully paid:			
Ordinary shares of HK\$0.01 each	10,000	100	82

The Company was incorporated as an exempted company with limited liability in the Cayman Islands on 22 August 2011 with authorised share capital of HK\$380,000 divided into 38,000,000 shares with a par value of HK\$0.01 each. On the date of incorporation, 1 ordinary share of HK\$ 0.01 was allotted and issued by the Company to its then shareholder. On 15 May 2012, 9,999 ordinary shares were issued by the Company to its then shareholder.

31. RESERVES**(a) Group**

The amounts of the Group's reserves and the movements therein are presented in the consolidated statements of changes in equity on page I-6 for the Relevant Periods.

(b) Company

	Share premium	Retained profits	Total
	RMB'000	RMB'000	RMB'000
At 22 August 2011	—	—	—
At 31 December 2011 and 1 January 2012	—	—	—
Issue of shares (i)	601,378	—	601,378
Total comprehensive loss	—	(335)	(335)
At 31 December 2012 and 1 January 2013	601,378	(335)	601,043
Total comprehensive loss	—	(230)	(230)
At 31 December 2013	601,378	(565)	600,813

(i) Details of the issue of shares of the Company are presented in note 30 above and the Reorganisation in note 1.

32. BUSINESS COMBINATION

On 3 May 2013, the Group acquired 100% of the equity interests in Beijing Chang Sheng, formerly known as Beijing Urban Construction Environmental Protection Investment Development Co., Ltd., from a listed company based in Mainland China. Beijing Chang Sheng engaged in the construction, operation and management of WTPs. The acquisition was made as part of the Group's strategy to expand its market share of WTPs in Mainland China.

The fair values of the identifiable assets and liabilities of Beijing Chang Sheng as at the date of acquisition were as follows:

	Notes	Fair value recognised on acquisition RMB'000
Assets		
Property, plant and equipment	15	739
Investment in an associate	19	48,988
Financial receivables		270,595
Deferred tax assets	21	1,916
Trade and bills receivables		24,369
Prepayments, deposits and other receivables		7,443
Cash and cash equivalents		<u>11,981</u>
		366,031
Liabilities		
Trade and bills payables		22,523
Other payables and accruals		58,480
Tax payable		267
Interest-bearing bank borrowings		76,300
Deferred tax liabilities	21	<u>9,132</u>
		166,702
Total identifiable net assets at fair value		199,329
Gain on bargain purchase recognised in other income and gains in profit or loss	8	<u>(18,529)</u>
Satisfied by cash		<u><u>180,800</u></u>

The fair values of the financial receivables and trade receivables as at the date of acquisition amounted to RMB270,595,000 and RMB24,369,000, respectively. None of the financial receivables and trade receivables have been impaired and it is expected that the full contractual amounts can be collected.

The Group incurred transaction costs of RMB3,808,000 for this acquisition. These transaction costs have been expensed and are included in administrative expenses in the consolidated statements of profit or loss and other comprehensive income.

The gain on bargain purchase represents the difference between the consideration paid and total identifiable net assets at fair value which is primarily determined by fair value of financial receivables and trade receivables in connection with service concession arrangements and fair value of liabilities.

	<u>Note</u>	RMB'000
An analysis of the net outflow of cash and cash equivalents in respect of the acquisition is as follows:		
Cash consideration		(180,800)
Cash and bank balances acquired		11,981
Deposits for the acquisition paid in 2012	25	<u>37,000</u>
Net outflow of cash and cash equivalents included in cash flows used in investing activities		(131,819)
Transaction costs of the acquisition included in cash flows from operating activities		<u>(3,808)</u>
		<u><u>(135,627)</u></u>

Since the acquisition, Beijing Chang Sheng contributed RMB49,328,000 to the Group's revenue and RMB12,325,000 to the Group's profit for the year ended 31 December 2013.

Had the acquisition taken place at the beginning of the year ended 31 December 2013, the revenue of the Group and the profit of the Group for the year would have been RMB1,357,061,000 and RMB236,022,000, respectively.

33. DISPOSAL OF A SUBSIDIARY

During the year ended 31 December 2011, the Group disposed of a subsidiary to Chongqing Kangte at cash consideration of RMB26,000,000. The consideration is determined with reference to the net assets of the subsidiary.

	<u>2011</u>
	RMB'000
Net assets disposed of:	
Property, plant and equipment	1,304
Prepayments, deposits and other receivables	4,579
Cash and cash equivalents	<u>20,117</u>
	<u>26,000</u>
Satisfied by cash	<u><u>26,000</u></u>

An analysis of the net inflow of cash and cash equivalents in respect of the disposal of a subsidiary is as follows:

	<u>2011</u>
	RMB'000
Cash consideration	26,000
Cash and bank balances disposed of	<u>(20,117)</u>
Net inflow of cash and cash equivalents in respect of the disposal of a subsidiary	<u><u>5,883</u></u>

34. OPERATING LEASE ARRANGEMENTS

(a) As lessor

The Group leases its investment properties (note 16) under operating lease arrangements, with terms ranging from two to ten years. The terms of the leases generally require the tenants to pay security deposits and provide for periodic rent adjustments according to the then prevailing market conditions.

At 31 December 2011, 2012 and 2013, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	<u>31 December</u>		
	<u>2011</u>	<u>2012</u>	<u>2013</u>
	RMB'000	RMB'000	RMB'000
Within one year	576	592	616
In the second to fifth years, inclusive	1,896	1,592	1,265
After five years	<u>1,153</u>	<u>865</u>	<u>576</u>
	<u><u>3,625</u></u>	<u><u>3,049</u></u>	<u><u>2,457</u></u>

(b) As lessee

The Group entered into an operating lease agreement as lessee in August 2012, to lease office properties for the periods from August 2012 to October 2013, and then renewed the lease agreement for another period of three years.

At 31 December 2011, 2012 and 2013, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	31 December		
	2011	2012	2013
	RMB'000	RMB'000	RMB'000
Within one year	—	1,072	3,010
In the second to fifth years, inclusive	—	—	5,383
After five years	—	—	—
	<u>—</u>	<u>1,072</u>	<u>8,393</u>

35. CONTINGENT LIABILITIES

At the end of each of the Relevant Periods, the Group did not have any significant contingent liabilities.

36. COMMITMENTS

In addition to the operating lease commitments detailed in note 34(b) above, the Group had the following commitments:

(a) Capital commitments

The Group had the following capital commitments at the end of each of the Relevant Periods:

	31 December		
	2011	2012	2013
	RMB'000	RMB'000	RMB'000
Contracted, but not provided for:			
Property, plant and equipment	<u>3,968</u>	<u>—</u>	<u>—</u>
Authorised, but not contracted for:			
Acquisition of subsidiaries*	<u>—</u>	<u>143,800</u>	<u>—</u>

* At 31 December 2012, the Group had a commitment of RMB180,800,000 relating to the acquisition of Beijing Chang Sheng, of which RMB37,000,000 had been paid as deposits (note 32).

- (b) At the end of each of the Relevant Periods, the Group had the following commitments with respect of service concession arrangements:

Group

	31 December		
	2011	2012	2013
	RMB'000	RMB'000	RMB'000
Contracted, but not provided for	<u>285,468</u>	<u>1,094,175</u>	<u>1,167,467</u>
Authorised, but not contracted for	<u>705,346</u>	<u>486,257</u>	<u>345,120</u>

37. RELATED PARTY TRANSACTIONS

- (a) In addition to the transactions detailed elsewhere in the Financial Information, the Group had the following material transactions with related parties during the Relevant Periods:

Group	31 December		
	2011	2012	2013
	RMB'000	RMB'000	RMB'000
Other borrowings provided to/(repaid by):			
Chongqing Kangte and its affiliates* (note 25(a))	<u>110,059</u>	<u>(145,778)</u>	<u>—</u>
Interest income received from:			
Chongqing Kangte and its affiliates* (note 7)	<u>7,462</u>	<u>—</u>	<u>—</u>
Other borrowings provided by:			
A non-controlling shareholder of Jilin Kangda (note 28)	<u>7,982</u>	<u>2,026</u>	<u>892</u>
Disposal of a subsidiary to:			
Chongqing Kangte* (note 33)	<u>26,000</u>	<u>—</u>	<u>—</u>

* These related party transactions also constitute connected transactions or continuing connected transactions as defined in Chapter 14A of the Listing Rules.

As disclosed in note 15, the Group is contractually authorised to use a piece of land which is legally owned by the non-controlling shareholder of Jilin Kangda without charge, which also constitutes related party transaction during the Relevant Periods.

The above related party transactions were conducted in accordance with the terms mutually agreed between the parties.

Certain interest-bearing bank and other borrowings of approximately RMB872,850,000, RMB1,445,875,000 and RMB1,262,125,000 were guaranteed by the Controlling Shareholders and Chongqing Kangte as at the end of each of the Relevant Periods (note 29).

(b) Outstanding balances with related parties

Details of the outstanding balances with related parties are set out in notes 25 and 28.

(c) Compensation of key management personnel of the Group

	31 December		
	2011	2012	2013
	RMB'000	RMB'000	RMB'000
Short term employee benefits	—	479	1,238
Post-employment benefits	—	17	69
Total compensation paid to key management personnel	—	496	1,307

Further details of directors' and the chief executive's emoluments are included in note 10 above.

38. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at the end of each of the Relevant Periods are as follows:

Group	31 December		
	2011	2012	2013
	RMB'000	RMB'000	RMB'000
<u>Financial assets</u>			
Loans and receivables:			
Financial receivables	1,915,042	2,370,264	3,285,672
Trade and bills receivables	67,628	220,499	229,362
Financial assets included in prepayments, deposits and other receivables	174,395	129,746	55,222
Pledged deposits	27,441	56,341	139,324
Cash and cash equivalents	245,774	543,754	275,562
	<u>2,430,280</u>	<u>3,320,604</u>	<u>3,985,142</u>

Group	31 December		
	2011	2012	2013
	RMB'000	RMB'000	RMB'000
<u>Financial liabilities</u>			
Financial liabilities at amortised cost:			
Trade and bills payables	380,807	411,946	543,892
Financial liabilities included in other payables and accruals	26,822	40,011	53,456
Interest-bearing bank borrowings	1,669,239	2,183,803	2,587,389
	<u>2,076,868</u>	<u>2,635,760</u>	<u>3,184,737</u>

Company	31 December		
	2011	2012	2013
	RMB'000	RMB'000	RMB'000
<u>Financial assets</u>			
Loans and receivables:			
Financial assets included in prepayments, deposits and other receivables	—	2,006	2,611
	<u>—</u>	<u>2,006</u>	<u>2,611</u>

Company	31 December		
	2011	2012	2013
	RMB'000	RMB'000	RMB'000
<u>Financial liabilities</u>			
Financial liabilities at amortised cost:			
Financial liabilities included in other payables and accruals	—	14	611
	<u>—</u>	<u>14</u>	<u>611</u>

39. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

The carrying amounts and fair values of the Group's and the Company's financial instruments, other than those with carrying amounts that reasonably approximate to fair values at the end of each of the Relevant Periods are as follows:

Group - Carrying amounts	31 December		
	2011	2012	2013
	RMB'000	RMB'000	RMB'000
<u>Financial assets</u>			
Loans and receivables:			
Financial receivables, non-current portion	1,486,887	1,828,396	2,571,247
Prepayments, deposits and other receivables, non-current portion	—	67,000	—
	<u>1,486,887</u>	<u>1,895,396</u>	<u>2,571,247</u>
Group - Carrying amounts	31 December		
	2011	2012	2013
	RMB'000	RMB'000	RMB'000
<u>Financial liabilities</u>			
Financial liabilities at amortised cost:			
Trade and bills payables, non-current portion	3,730	4,251	6,440
Interest-bearing bank borrowings, non-current portion	<u>1,006,827</u>	<u>1,415,632</u>	<u>1,802,048</u>
	<u>1,010,557</u>	<u>1,419,883</u>	<u>1,808,488</u>
Group - Fair values	31 December		
	2011	2012	2013
	RMB'000	RMB'000	RMB'000
<u>Financial assets</u>			
Loans and receivables:			
Financial receivables, non-current portion	1,431,070	1,837,672	2,576,924
Prepayments, deposits and other receivables, non-current portion	—	66,081	—
	<u>1,431,070</u>	<u>1,903,753</u>	<u>2,576,924</u>

Group - Fair values	31 December		
	2011	2012	2013
	RMB'000	RMB'000	RMB'000
<u>Financial liabilities</u>			
Financial liabilities at amortised cost:			
Trade and bills payables, non-current portion	3,497	4,005	6,067
Interest-bearing bank borrowings, non-current portion	852,154	1,244,970	1,516,659
	<u>855,651</u>	<u>1,248,975</u>	<u>1,522,726</u>

Management has assessed that the fair values of cash and cash equivalents, pledged deposits, trade and bills receivables, the current portion of financial receivables, the current portion of trade and bills payables, the current portion of financial assets included in prepayments, deposits and other receivables, the current portion of financial liabilities included in other payables and accruals, the current portion of interest-bearing-bank borrowings approximate to their carrying amounts largely due to the short term maturities of these instruments.

The Group's corporate finance team headed by the finance manager is responsible for determining the policies and procedures for the fair value disclosure of financial instruments. The corporate finance team reports directly to the chief financial officer. At the end of each of the Relevant Periods, the corporate finance team analyses the movements in the values of financial instruments and determines the major inputs applied in the valuation. The valuation is reviewed and approved by the chief financial officer.

The fair values of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The following methods and assumptions were used to estimate the fair values:

The fair values of the non-current portion of financial receivables, prepayments, deposits and other receivables, trade and bills payables and interest-bearing bank borrowings have been calculated by discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities. The Group's own non-performance risks for trade and bills payables, interest-bearing bank borrowings as at the end of each of the Relevant Periods were assessed to be insignificant.

All financial assets and liabilities for which fair value was disclosed in the Financial Information are categorised within the fair value hierarchy of level 3 as at the end of each of the Relevant Periods, except for interest-bearing bank borrowings which are categorised within the fair value hierarchy of level 2.

40. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise interest-bearing bank borrowings, cash and cash equivalents and pledged deposits. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as financial receivables, trade and bills receivables and trade and bills payables, which arise directly from its operations.

The main risks arising from the Group's financial instruments are interest rate risk, credit risk and liquidity risk. Generally, the senior management of the Company meets regularly to analyse and formulate measures to manage the Group's exposure to these risks. In addition, the Board of Directors of the Company holds meetings regularly to analyse and approve the proposals made by the senior management of the Company. Generally, the Group introduces conservative strategies on its risk management. As the Group's exposure to these risks is kept to a minimum, the Group has not used any derivatives and other instruments for hedging purposes. The Group does not hold or issue derivative financial instruments for trading purposes. The Board of Directors of the Company reviews and agrees policies for managing each of these risks and they are summarised below.

(a) Interest rate risk

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's long term debt obligations with floating interest rates.

Management does not anticipate any significant impact of the changes in market interest rates because most of the Group's borrowings during the Relevant Periods were at fixed interest rates.

The Group regularly reviews and monitors the mix of fixed and floating interest rate borrowings in order to manage its interest rate risk. The Group's interest-bearing bank borrowings, pledged deposits and cash and cash equivalents are stated at amortised cost and not revalued on a periodic basis. Floating rate interest income and expenses are credited/charged to profit or loss as earned/incurred.

If there would be a general increase/decrease in the market interest rates by one percentage point, with all other variables held constant, the Group's consolidated pre-tax profit would have decreased/increased by approximately RMB13,202,000, RMB20,418,000, and RMB23,311,000 for the years ended 31 December 2011, 2012 and 2013 respectively, and there would be no impact on other components of the consolidated equity, except for retained profits, of the Group. The sensitivity analysis above has been determined assuming that the change in market interest rates had occurred at the end of each of the Relevant Periods and had applied the exposure to interest rate risk to those financial instruments in existence at those dates. The estimated one percentage point increase or decrease represents management's assessment of a reasonably possible change in market interest rates over the period until the next annual year end.

(b) Credit risk

The carrying amounts of cash and cash equivalents, pledged deposits, trade and bills receivables, financial receivables and financial assets included in prepayments, deposits and other receivables represent the Group's maximum exposure to credit risk in relation to these financial assets. Substantially all of the Group's cash and cash equivalents and pledged deposits are held in major financial institutions located in the PRC and Hong Kong, which management believes are of high credit quality. The Group has policies to control the size of the deposits to be placed with various reputable financial institutions according to their market reputation, operating scale and financial background with a view to limiting the credit exposure to a single financial institution to an acceptable level.

The Group trades only with recognised and creditworthy third parties. In addition, receivable balances are monitored on an ongoing basis and the Group's exposure to bad debts is not significant.

As the Group's major customers are either PRC government authorities or agencies at the provincial and local levels or other state-owned enterprises, the Group believes that they are reliable and of high credit quality and hence, there is no significant credit risk with these customers. The senior management of the Company keeps reviewing and assessing the creditworthiness of the Group's existing customers on an ongoing basis.

(c) Liquidity risk

The liquidity of the Group is primarily dependent on its ability to maintain adequate cash inflows from operations to meet its debt obligations as they fall due, and its ability to obtain external financing to meet its committed future capital expenditure.

The maturity profile of the Group's financial liabilities at the end of each of the Relevant Periods, based on the contractual undiscounted payments, is as follows:

Group	31 December 2011				
	Within 1 year	1 to 2 years	2 to 5 years	More than 5 years	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Interest-bearing bank borrowings	781,618	333,980	675,022	194,018	1,984,638
Trade and bills payables	327,871	14,355	14,618	23,963	380,807
Financial liabilities included in other payables and accruals	26,822	—	—	—	26,822
	<u>1,136,311</u>	<u>348,335</u>	<u>689,640</u>	<u>217,981</u>	<u>2,392,267</u>

APPENDIX I
ACCOUNTANTS' REPORT

Group	31 December 2012				
	Within 1 year	1 to 2 years	2 to 5 years	More than 5 years	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Interest-bearing bank and other borrowings	919,450	692,651	762,250	176,628	2,550,979
Trade and bills payables	303,878	71,845	7,419	28,804	411,946
Financial liabilities included in other payables and accruals	40,011	—	—	—	40,011
	<u>1,263,339</u>	<u>764,496</u>	<u>769,669</u>	<u>205,432</u>	<u>3,002,936</u>

Group	31 December 2013				
	Within 1 year	1 to 2 years	2 to 5 years	More than 5 years	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Interest-bearing bank and other borrowings	965,543	836,605	819,901	530,506	3,152,555
Trade and bills payables	475,637	24,335	13,176	30,744	543,892
Financial liabilities included in other payables and accruals	53,456	—	—	—	53,456
	<u>1,494,636</u>	<u>860,940</u>	<u>833,077</u>	<u>561,250</u>	<u>3,749,903</u>

Company	31 December 2012				
	Within 1 year	1 to 2 years	2 to 5 years	More than 5 years	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Financial liabilities included in other payables and accruals	14	—	—	—	14
	<u>14</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>14</u>

Company	31 December 2013				
	Within 1 year	1 to 2 years	2 to 5 years	More than 5 years	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Financial liabilities included in other payables and accruals	611	—	—	—	611
	<u>611</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>611</u>

(d) **Capital management**

The Group's primary objectives for managing capital are to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratio in order to support its business and maximise shareholders' value.

The Group sets the amount of capital in proportion to risk. The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debts. No change was made in the objectives, policies or processes for managing capital during the Relevant Periods.

The Group monitors capital using a gearing ratio, which is net debt divided by the capital plus net debt. Net debt includes trade and bills payables, other payables and accruals and interest-bearing bank borrowings, less cash and cash equivalents and pledged deposits. Capital includes the equity attributable to owners of the parent and non-controlling interests stated in the consolidated statements of financial position.

The Group's strategy is to maintain the gearing ratio at a healthy capital level in order to support its businesses. The principal strategies adopted by the Group include, but are not limited to, reviewing future cash flow requirements and the ability to meet debt repayment schedules when they fall due, maintaining a reasonable level of available banking facilities and adjusting investment plans and financing plans, if necessary. The gearing ratios at the end of each of the Relevant Periods were as follows:

	31 December		
	2011	2012	2013
	RMB'000	RMB'000	RMB'000
Trade and bills payables (note 27)	380,807	411,946	543,892
Other payables and accruals (note 28)	26,822	40,011	53,456
Interest-bearing bank borrowings (note 29)	1,669,239	2,183,803	2,587,389
Less: Cash and cash equivalents (note 26)	(245,774)	(543,754)	(275,562)
Less: Pledged deposits (note 26)	(27,441)	(56,341)	(139,324)
Net debt	<u>1,803,653</u>	<u>2,035,665</u>	<u>2,769,851</u>
Total equity	<u>688,587</u>	<u>1,116,101</u>	<u>1,352,730</u>
Capital and net debt	<u>2,492,240</u>	<u>3,151,766</u>	<u>4,122,581</u>
Gearing ratio	<u>72%</u>	<u>65%</u>	<u>67%</u>

III. EVENTS AFTER THE RELEVANT PERIODS

Save as aforesaid, no other significant events took place subsequent to 31 December 2013.

IV. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Group or any of its subsidiaries in respect of any period subsequent to 31 December 2013.

Yours faithfully,
Ernst & Young
Certified Public Accountants
 Hong Kong

APPENDIX II UNAUDITED PRO FORMA FINANCIAL INFORMATION

This information set forth in this Appendix II does not form part of the accountants' report prepared by Ernst & Young, Certified Public Accountants, Hong Kong, the reporting accountants of the Company, as set forth in Appendix I to this Prospectus, and is included herein for information only.

The unaudited pro forma financial information should be read in conjunction with the section headed "Financial information" in this Prospectus and the accountants' report set forth in Appendix I to the prospectus.

(A) UNAUDITED PRO FORMA ADJUSTED NET TANGIBLE ASSETS

The following is an illustrative and pro forma statement of our adjusted net tangible assets, which has been prepared on the basis of the notes set out below for the purpose of illustrating the effect of the Global Offering as if it had taken place on 31 December 2013. This unaudited pro forma statement of adjusted net tangible assets has been prepared for illustrative purposes only and because of its hypothetical nature, it may not give a true picture of our financial position had the Global Offering been completed as at 31 December 2013 or any future dates.

	Adjusted consolidated net tangible assets attributable to the owners of our Company as at 31 December 2013 ⁽¹⁾	Estimated net proceeds from the Global Offering ⁽²⁾	Unaudited pro forma adjusted consolidated net tangible assets	Unaudited pro forma adjusted net tangible assets per Share ⁽³⁾	
	RMB'000	RMB'000	RMB'000	RMB	HK\$
Based on the Offer Price of HK\$2.00 for each Offer Share	1,339,536	740,862	2,080,398	1.04	1.31
Based on the Offer Price of HK\$2.80 for each Offer Share	1,339,536	1,047,668	2,387,204	1.19	1.50

(1) The adjusted consolidated net tangible assets attributable to our equity shareholders as at 31 December 2013 is extracted from the Accountants' Report set out in Appendix I to this prospectus, which is based on our audited consolidated net assets attributable to our equity shareholders as at 31 December 2013 of RMB1,340,381,000 with an adjustment of deducting the intangible assets as at 31 December 2013 of RMB845,000.

(2) The estimated net proceeds from the Global Offering are based on an indicative Offer Price of HK\$2.00 (equivalent to RMB1.59) and HK\$2.80 (equivalent to RMB2.23) per Share respectively (after deducting the underwriting fees and other related expenses), and takes no account of any Shares which may be issued pursuant to the Over-allotment Option. For the purpose of the estimated net proceeds from the Global Offering, the translation of RMB into HK dollars was made at the rate of RMB0.7949 to HK\$1, the exchange rate prevailing on 6 June 2014 set by PBOC for foreign exchange transactions.

(3) The unaudited pro forma net tangible assets per Share is arrived at by dividing the unaudited pro forma adjusted net tangible assets by 2,000,000,000 Shares, being the number of shares in issue assuming that the Global Offering has been completed on 4 July 2014 but takes no account of any Shares which may be issued upon the exercise of the Over-allotment Option.

APPENDIX II UNAUDITED PRO FORMA FINANCIAL INFORMATION

(B) COMFORT LETTER ON UNAUDITED PRO FORMA FINANCIAL INFORMATION

The following is the text of a report received from our reporting accountants, Ernst & Young, Certified Public Accountants, Hong Kong, prepared for the purposes of incorporation in this prospectus, in respect of the unaudited pro forma financial information of the Group.

INDEPENDENT REPORTING ACCOUNTANT'S ASSURANCE REPORT ON THE COMPILATION OF PRO FORMA FINANCIAL INFORMATION**To the Directors of Kangda International Environmental Company Limited**

We have completed our assurance engagement to report on the compilation of pro forma financial information of Kangda International Environmental Company Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") by the directors of the Company (the "Directors") for illustrative purposes only. The pro forma financial information consists of the pro forma consolidated net tangible assets as at 31 December 2013 and related notes as set out in Part A of Appendix II of the Prospectus issued by the Company (the "Pro Forma Financial Information"). The applicable criteria on the basis of which the Directors have compiled the Pro Forma Financial Information are described in Part A of Appendix II of the Prospectus.

The Pro Forma Financial Information has been compiled by the Directors to illustrate the impact of the proposed offering of shares of the Company on the Group's financial position as at 31 December 2013 as if the transaction had taken place as at 31 December 2013. As part of this process, information about the Group's financial position has been extracted by the Directors from the Group's financial statements for the period ended 31 December 2013, on which an accountant's report has been published.

Directors' responsibility for the Pro Forma Financial Information

The Directors are responsible for compiling the 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").

Reporting Accountant's responsibilities

Our responsibility is to express an opinion, as required by paragraph 4.29(7) of the Listing Rules, on the 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 Pro Forma Financial Information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

APPENDIX II UNAUDITED PRO FORMA FINANCIAL INFORMATION

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements 3420 *Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus* issued by the HKICPA. This standard requires that the reporting accountant comply with ethical requirements and plan and perform procedures to obtain reasonable assurance about whether the Directors have compiled the Pro Forma Financial Information, in accordance with paragraph 4.29 of the Listing Rules and with reference to AG7 *Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars* issued by HKICPA.

For purposes of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the Pro Forma Financial Information, nor have we, in the course of this engagement, performed an audit or review of the financial information used in compiling the Pro Forma Financial Information.

The purpose of Pro Forma Financial Information included in the Prospectus is solely to illustrate the impact of the proposed offering of shares of the Company on unadjusted financial information of the Group as if the transaction had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the transaction would have been as presented.

A reasonable assurance engagement to report on whether the Pro Forma Financial Information has been properly compiled on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the Directors in the compilation of the Pro Forma Financial Information provide a reasonable basis for presenting the significant effects directly attributable to the transaction, and to obtain sufficient appropriate evidence about whether:

- The related pro forma adjustments give appropriate effect to those criteria; and
- The Pro Forma Financial Information reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on the reporting accountant's judgment, having regard to the reporting accountant's understanding of the nature of the Group, the transaction in respect of which the Pro Forma Financial Information has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the Pro Forma Financial Information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion:

- (a) the Pro Forma Financial Information has been properly compiled on the basis stated;
- (b) such basis is consistent with the accounting policies of the Group; and
- (c) the adjustments are appropriate for the purpose of the Pro Forma Financial Information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

Yours faithfully,

Ernst & Young

Certified Public Accountants

Hong Kong

23 June 2014

APPENDIX III SUMMARY OF THE CONSTITUTION OF OUR COMPANY AND CAYMAN ISLANDS COMPANIES 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 22 August 2011 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 adopted on 14 June 2014. 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.

APPENDIX III SUMMARY OF THE CONSTITUTION OF OUR COMPANY AND CAYMAN ISLANDS COMPANIES LAW

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 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

APPENDIX III SUMMARY OF THE CONSTITUTION OF OUR COMPANY AND CAYMAN ISLANDS COMPANIES LAW

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 favour 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 realised 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.

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 sub-underwriting 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; or

APPENDIX III SUMMARY OF THE CONSTITUTION OF OUR COMPANY AND CAYMAN ISLANDS COMPANIES LAW

- (ee) 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 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.

APPENDIX III SUMMARY OF THE CONSTITUTION OF OUR COMPANY AND CAYMAN ISLANDS COMPANIES LAW

(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.

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.

APPENDIX III SUMMARY OF THE CONSTITUTION OF OUR COMPANY AND CAYMAN ISLANDS COMPANIES LAW

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.

(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.

APPENDIX III SUMMARY OF THE CONSTITUTION OF OUR COMPANY AND CAYMAN ISLANDS COMPANIES LAW

(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.

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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 so to do, vote in person or, in the case of such members as are corporations, by their duly authorised 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 authorised 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 authorised 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 instalments 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 save that the chairman of the meeting may in good faith, allow a resolution which relates purely to a procedural or administrative matter to be voted on by a show of hands in which case every member present in person (or being a corporation, is present by a duly authorised representative), or by proxy(ies) shall have one vote provided that where more than one proxy is appointed by a member which is a clearing house (or its nominee(s)), each such proxy shall have one vote on a show of hands.

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If a recognised clearing house (or its nominee(s)) is a member of the Company it may authorise 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 authorised, the authorisation shall specify the number and class of shares in respect of which each such person is so authorised. A person authorised pursuant to this provision shall be deemed to have been duly authorised without further evidence of the facts and be entitled to exercise the same powers on behalf of the recognised 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)) including, where a show of hands is allowed, the right to vote individually on a show of hands.

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.

(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 authorised 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 summarised financial statements derived from the Company's annual accounts and the

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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 summarised 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
- (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.

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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

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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.

The board may decline to recognise 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.

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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, realised or unrealised, 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 authorised 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.

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

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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 authorised 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 instalments. If the sum payable in respect of any call or instalment 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 instalments 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.

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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 during business hours 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 authorised 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 authorised 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 summarised 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.

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(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.

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 authorised 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.

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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 authorised 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).

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 authorised 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 authorised to do so by its articles of association, purchase its own shares, including any redeemable shares. However, if the articles of association do not authorise 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 authorised 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

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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 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.

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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 authorising 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.

(i) Exchange control

There are no exchange control regulations or currency restrictions in the Cayman Islands.

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(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 6 September 2011.

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

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public inspection. However, an exempted company shall make available at its registered office, in electronic form or any other medium, such register of members, including any branch register of members, as may be required of it upon service of an order or notice by the Tax Information Authority pursuant to the Tax Information Authority Law (2009 Revision) of the Cayman Islands.

(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 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 authorised 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

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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 authorised 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.

(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).

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4. GENERAL

Conyers Dill & Pearman (Cayman) Limited, the Company's special legal counsel on Cayman Islands law, have sent to the Company a letter of advice summarising 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 Delivered to the Registrar of Companies and Available for Inspection" in Appendix V. 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**1. Incorporation**

Our Company was incorporated in the Cayman Islands under the Companies Law as an exempted company with limited liability on 22 August 2011. Our Company has been registered as a non-Hong Kong company under Part XVI of the Cap. 622 Companies Ordinance on 30 September 2013 and our Company's principal place of business in Hong Kong is at Rm 2204, 22/F, Fu Fai Commercial Centre, 27 Hillier Street, Hong Kong. Mr. Lam Shui Yuen, a Hong Kong resident, has been appointed as the authorised representative of our Company for the acceptance of service of process and notices in Hong Kong.

As our Company was incorporated in the Cayman Islands, we operate subject to the relevant law of the Cayman Islands and its constitution which comprises a memorandum of association and the articles of association. A summary of the relevant aspects of the Companies Law and certain provisions of Articles of Association is set out in Appendix III of this prospectus.

2. Changes in share capital of our Company

As at the date of the incorporation of our Company, its authorised share capital was HK\$380,000 divided into 38 million Shares of HK\$0.01 each as the holding company of our Group. On the same day, one nil-paid Share was issued (the "Subscriber's Shares") to Codan Trust Company (Cayman) Limited and the Subscriber's Share was transferred to Kangda Holdings on the same day.

On 15 May 2012, Kangda Holdings subscribed (i) 9,998 fully-paid Shares at the par value of HK\$0.01 each, and (ii) one nil-paid Share at the Hong Kong dollar equivalent of approximately RMB600 million. On 25 May 2012, our Company received approximately HK\$737.2 million, equivalent of approximately RMB600 million, in cash upon a 100% call being made on such one nil-paid Share.

Immediately following completion of the Capitalisation Issue and the Global Offering and assuming that the Over-allotment Option is not exercised, the authorised share capital of our Company will be HK\$50,000,000 divided into 5,000,000,000 Shares, of which 2,000,000,000 Shares will be issued as fully paid or credited as fully paid, and 3,000,000,000 Shares will remain unissued. Other than pursuant to the general mandate to issue Shares referred to in the paragraph headed "4. Written resolutions of our Shareholders passed on 14 June 2014" in this Appendix, we do not have any present intention to issue any of the authorised but unissued share capital of our Company and, without prior approval of our Shareholders in general meeting, no issue of Shares will be made which would effectively alter the control of our Company.

Save as disclosed in this prospectus, there has been no alteration in the share capital of our Company since its incorporation.

3. Changes in share capital of our subsidiaries

The following alterations in the share capital or registered capital of our subsidiaries took place within the two years immediately preceding the date of this prospectus:

(a) *Kangda Group*

On 22 August 2012, the registered capital of Kangda Group was further increased to RMB530 million by way of capital contribution by Kangda Hong Kong. Pursuant to the capital verification report issued by Chongqing Zhongzi Certified Public Accountants Co., Ltd.* (重慶中諮會計師事務所有限公司) on 15 August 2012, such increase in the registered capital of Kangda Group was fully paid by Kangda Hong Kong as at 26 July 2012.

(b) *Jining Kangda*

On 11 November 2012, the registered capital of Jining Kangda was further increased to RMB 13 million by way of capital contribution by Kangda Group. Pursuant to the capital verification report issued by Jining Changshun Accounting Firm* (濟甯長順會計師事務所) on 7 November 2012, such increase in the registered capital of Jining Kangda was fully paid by Kangda Group as at 1 November 2012.

On 15 March 2013, the registered capital of Jining Kangda was further increased to RMB 25 million by way of capital contribution by Kangda Group. Pursuant to the capital verification report issued by Jining Changshun Accounting Firm* (濟甯長順會計師事務所) on 15 March 2013, such increase in the registered capital of Jining Kangda was fully paid by Kangda Group as at 15 March 2013.

(c) *Pingdingshan Kangda*

On 18 October 2012, Pingdingshan Kangda was incorporated in Wugang City, Henan Province with registered capital of RMB 10 million by way of capital contribution by Kangda Group. Pursuant to the capital verification report issued by Wugang Jingsheng Joint Accounting Firm* (舞鋼景昇聯合會計師事務所) on 18 October 2012, the registered capital of Pingdingshan Kangda was fully paid by Kangda Group as at 18 October 2012.

(d) *Shanxian Kangda*

On 3 December 2012, Shanxian Kangda was incorporated in Shan County, Heze City, Shandong Province with registered capital of RMB 2 million by way of capital contribution by Kangda Group. Pursuant to the capital verification report issued by Shandong Fazheng Accounting Co., Ltd* (山東法正會計師事務所有限公司) on 20 November 2012, such registered capital was fully paid by Kangda Group as at 20 November 2012.

(e) *Dongying Kangda*

On 28 November 2012, Dongying Kangda was incorporated in Dongying City, Shandong Province with registered capital of US\$ 13.115 million by way of capital contribution by Kangda Group and Kangda Investment. Pursuant to the capital verification report issued by Shangdong Tianhao Accounting Co., Ltd.* (山東天昊會計師事務所有限公司) on 21 January 2013, the first instalment of such registered capital was paid by Kangda Group as at 21 January 2013. Pursuant to the capital verification report issued by Shandong Tianhao Accounting Co., Ltd.* (山東天昊會計師事務所有限公司) on 8 March 2013, the second instalment of such registered capital was paid by Kangda Investment as at 8 March 2013.

(f) *Shangqiu Kangda*

On 8 January 2013, the registered capital of Shangqiu Kangda was further increased to RMB 7 million by way of capital contribution by Kangda Group. Pursuant to the capital verification report issued by Henan Yuhua Accounting Co., Ltd.* (河南豫華會計師事務所有限公司) on 6 January 2013, such increase in the registered capital of Shangqiu Kangda was fully paid by Kangda Group as at 5 January 2013.

(g) *Suzhou Kangda*

On 4 March 2013, Suzhou Kangda was incorporated in Suzhou City, Anhui Province with registered capital of RMB 36 million by way of capital contribution by Kangda Group. Pursuant to the capital verification report issued by Suzhou Foxiao Accounting Firm* (宿州拂曉會計師事務所) on 4 March 2013, such registered capital was fully paid by Kangda Group as at 1 March 2013.

(h) *Weifang Kangda*

On 3 July 2013, the registered capital of Weifang Kangda was further increased to RMB 74 million by way of capital contribution by Kangda Group. Pursuant to the capital verification report issued by Weifang Lixin Accounting Co., Ltd.* (濰坊立信有限責任會計師事務所) on 25 June 2013, such increase in the registered capital of Weifang Kangda was fully paid by Kangda Group as at 24 June 2013.

On 14 October 2013, the registered capital of Weifang Kangda was further increased to RMB 94.18 million by way of capital contribution by Kangda Group. Pursuant to the capital verification report issued by Weifang Lixin Accounting Co., Ltd.* (濰坊立信有限責任會計師事務所) on 6 November 2013, such increase in the registered capital of Weifang Kangda was fully paid by Kangda Group as at 5 November 2013.

(i) *Huadian Kangda*

On 21 August 2013, Huadian Kangda was incorporated in Huadian City, Jilin Province with registered capital of RMB 10 million by way of capital contribution by Kangda Group. Pursuant to the capital verification report issued by Huadian City Zhongtai Accounting Co., Ltd.* (樺甸市中泰會計師事務所有限責任公司) on 21 August 2013, such registered capital was fully paid by Kangda Group as at 21 August 2013.

(j) *Fengxian Kangda III*

On 18 October 2013, Fengxian Kangda III was incorporated in Feng County, Jiangsu Province with registered capital of RMB 3 million by way of capital contribution by Kangda Group. Pursuant to the capital verification report issued by Xuzhou Gongzheng Accounting Firm* (徐州公正會計師事務所) on 11 October 2013, such registered capital was fully paid by Kangda Group as at on 10 October 2013.

(k) *Liangshan Kangda*

On 21 April 2014, Liangshan Kangda was incorporated in Liangshan County, Jining City, Shandong Province with registered capital of RMB1 million by way of capital contribution by Kangda Group. Such registered capital was fully paid by Kangda Group as at on 15 May 2014.

Save as disclosed above, there has been no alteration in the share capital or registered capital of the subsidiaries of our Company within the two years preceding the date of this prospectus.

4. Written resolutions of our Shareholders passed on 14 June 2014

Pursuant to the written resolutions of all Shareholders entitled to vote at general meetings of our Company, which were passed on 14 June 2014:

- (a) conditional upon (i) the Listing Committee of the Stock Exchange granting the listing of, and permission to deal in, on the Main Board, our Shares in issue and to be issued (pursuant to the Capitalisation Issue, the Global Offering, the Over-allotment Option and the Share Option Scheme) as mentioned in this prospectus; and (ii) the obligations of the Underwriters under the Underwriting Agreement becoming unconditional (including, if relevant, as a result of the waiver of any condition(s)) by the Joint Global Coordinators (on behalf of the Underwriters) and not being terminated in accordance with the terms of the Underwriting Agreement or otherwise:
- (i) the Global Offering and the Over-allotment Option were approved and our Directors were authorised to allot and issue the Offer Shares and the Shares as may be required to be allotted and issued upon the exercise of the Over-allotment Option on and subject to the terms and conditions stated in this prospectus and in the relevant application forms;
 - (ii) the rules of the Share Option Scheme were approved and adopted, and our Directors or any committee thereof established by the Board were authorised, at their sole discretion, to: (i) administer the Share Option Scheme; (ii) modify/amend the Share Option Scheme from time to time as requested by the Stock Exchange; (iii) grant options to subscribe for Shares under the Share Option Scheme up to the limits referred to in the Share Option Scheme; (iv) allot, issue and deal with Shares pursuant to the exercise of any option which may be granted under the Share Option Scheme; (v) make application at the appropriate time or times to the Stock Exchange for the listing of, and permission to deal in, any Shares or any part thereof that may hereafter

from time to time be issued and allotted pursuant to the exercise of the options granted under the Share Option Scheme; and (vi) take all such actions as they consider necessary, desirable or expedient to implement or give effect to the Share Option Scheme;

- (b) a general unconditional mandate was given to our Directors to exercise all the powers of our Company 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 by way of 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 issue of Shares upon the exercise of any subscription rights attached to any warrants of our Company or pursuant to the exercise of options granted under the Share Option Scheme or any other option scheme(s) or similar arrangement for the time being adopted for the grant or issue to directors and/or officers and/or employees of our Group or rights to acquire Shares or pursuant to a specific authority granted by the Shareholders in general meeting, the Shares with an aggregate nominal amount not exceeding 20% of the aggregate nominal amount of the share capital of our Company in issue immediately following completion of the Capitalisation Issue and the Global Offering but before any exercise of the Over-allotment Option and any options which may be granted the Share Option Scheme, until the conclusion of the next annual general meeting of the Company, unless renewed by an ordinary resolution of the Shareholders in a general meeting, either unconditionally or subject to conditions or the expiration of the period within the next annual general meeting of the Company is required by the Articles of Association or any applicable law of the Cayman Islands to be held or the passing of an ordinary resolution given to the Directors, whichever occurs first;

For the purpose of this paragraph, “Rights Issue” means an offer of shares in our Company, or offer or issue of warrants, options or other securities giving rights to subscribe for shares open for a period fixed by our Directors to holders of shares in our Company on the register on a fixed record date in proportion to their holdings of shares (subject to such exclusion or other arrangements as our Directors may deem necessary or expedient in relation to fractional entitlements, or having regard to any restrictions or obligations under the laws of, or the requirements of, or the expense or delay which may be involved in determining the existence or extent of any restrictions or obligations under the laws of, or the requirements of, any jurisdiction applicable to our Company, or any recognised regulatory body or any stock exchange applicable to our Company);

- (c) a general unconditional mandate be and is hereby given to our Directors to exercise all powers of our Company to repurchase on the Stock Exchange, or on any other stock exchange on which the securities of our Company may be listed and which is recognised by the SFC and the Stock Exchange for this purpose, such number of Shares with an aggregate nominal value not exceeding 10% of the aggregate nominal amount of the share capital of our Company in issue immediately following completion of the Capitalisation Issue and the Global Offering but before the exercise of the Over-allotment Option, any options which may be the Share Option Scheme, unless renewed by an ordinary resolution

of the Shareholders in a general meeting, either unconditionally or subject to conditions or the expiration of the period within which the next annual general meeting of the Company is required by the article of association of the Company or any applicable law of the Cayman Islands to be held or the passing of an ordinary resolution by the Shareholders in general meeting of the Company varying or revoking the authority given to the Directors, whichever occurs first;

- (d) the extension of the general mandate to allot, issue and deal with Shares as mentioned in paragraph (d) above 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 our 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 paragraph (e) above, provided that such extended amount shall not exceed 10% of the aggregate of the total nominal value of the share capital of our Company in issue immediately following completion of the Capitalisation Issue and the Global Offering but before the exercise of the Over-allotment Option be and is approved; and
- (e) the adoption of the Articles of Association.

Each of the general mandates referred to in paragraphs (d), (e) and (f) above will remain in effect until whichever is the earliest of:

- (1) the conclusion of our next annual general meeting, unless renewed by an ordinary resolution of our Shareholders in a general meeting, either unconditionally or subject to conditions;
- (2) the expiration of the period within which our Company is required by any applicable law or the Articles of Association to hold our next annual general meeting; or
- (3) the time when such mandate is varied or revoked by an ordinary resolution of our Shareholders in a general meeting.

5. Repurchase of our Shares

This section includes information relating to the repurchases of securities, including information required by the Stock Exchange to be included in this prospectus concerning such repurchase.

(a) *Provisions of the Listing Rules*

The Listing Rules permit companies whose primary listing is on the Stock Exchange to repurchase their securities on the Stock Exchange subject to certain restrictions, the most important restrictions are summarized below:

(i) *Shareholders' approval*

All proposed repurchases of Shares must be approved in advance by an ordinary resolution of the Shareholders in a general meeting, either by way of general mandate or by specific approval in relation to a particular transaction.

Pursuant to the written resolutions passed on 14 June 2014 by all our Shareholders, a general unconditional mandate (the “Repurchase Mandate”) was given to our Directors to exercise all powers of our Company to repurchase Shares (Shares which may be listed on the Stock Exchange) with a total nominal value of not more than 10% of the aggregate nominal value of our share capital in issue or to be issued immediately following completion of the Global Offering, further details of which have been described above in the paragraph headed “4. Written resolutions of our Shareholders passed on 14 June 2014” in this Appendix.

(ii) *Source of funds*

Any repurchases of Shares by us must be paid out of funds legally available for the purpose in accordance with our Articles of Association, the Listing Rules and the Companies Law. We are not permitted to repurchase our Shares 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.

(iii) *Shares to be repurchased*

The Listing Rules provide that the Shares which are proposed to be repurchased by us must be fully-paid up.

(b) *Reasons for repurchases*

Our Directors believe that it is in the best interests of our Company and our Shareholders for our Directors to have general authority from the Shareholders to enable them to repurchase Shares in the market. Such repurchases may, depending on market conditions and funding arrangements at the time, lead to an enhancement of the net asset value per Share and/or earnings per Share and will only be made where the Directors believe that such repurchases will benefit our Company and our Shareholders.

(c) *Funding of repurchases*

In repurchasing Shares, we may only apply funds legally available for such purpose in accordance with the Articles of Association, the Listing Rules and the applicable laws and regulations of the Cayman Islands.

On the basis of our Company’s current financial position as disclosed in this prospectus and taking into account its current working capital position, our Directors consider that, if the Repurchase Mandate is exercised in full, it might have a material adverse effect on our working capital and/or gearing position as compared with the position disclosed in this prospectus. However, our Directors do not propose to exercise the Repurchase Mandate to such an extent as would, in the circumstances, have a material adverse effect on our working capital requirements or the gearing levels which in the opinion of our Directors are from time to time appropriate for us.

(d) *General*

None of our Directors nor, to the best of their knowledge having made all reasonable enquiries, any of their associates (as defined in the Listing Rules) currently intends to sell any Shares to us.

Our Directors have undertaken to the Stock Exchange that, so far as the same may be applicable, they will exercise the Repurchase Mandate in accordance with the Listing Rules and the applicable laws and regulations of the Cayman Islands.

If, as a result of any repurchase of Shares, a shareholder's proportionate interest in the voting rights is increased, such increase will be treated as an acquisition for the purposes of the Hong Kong Code on Takeovers and Mergers (the "Takeovers Code"). Accordingly, a shareholder or a group of shareholders acting in concert could obtain or consolidate control of us and become obliged to make a mandatory offer in accordance with rule 26 of the Takeovers Code. Save as aforesaid, our Directors are not aware of any consequences which would arise under the Takeovers Code as a consequence of any repurchases pursuant to the Repurchase Mandate.

We have not made any repurchases of our own securities in the past six months.

No connected person has notified us that he/she has a present intention to sell Shares to us, or has undertaken not to do so, if the Repurchase Mandate is exercised.

B. CORPORATE REORGANISATION

In order to streamline the corporate structure and rationalise our corporate structure for the Listing, our Group underwent the Corporate Reorganisation. Please see the sub-section headed "History and Corporate Structure — Corporate Reorganisation" in this prospectus for details.

C. FURTHER INFORMATION ABOUT OUR BUSINESS

1. Summary of the material contracts

The following contracts (not being contracts entered into in the ordinary course of business) were entered into by our Group within the two years preceding the date of this prospectus and are or may be material:



- (a) a letter of intent dated 21 December 2012 entered into between Kangda Group and Beijing Urban Construction Investment, pursuant to which Beijing Urban Construction Investment agreed to sell its 100% equity interests in Beijing Chang Sheng through tendering and bidding process and Kangda Group agreed to purchase such equity interests under certain conditions provided therein;

- (b) an equity transfer framework agreement (the “Framework Agreement”) dated 22 March 2013 entered into between Kangda Group and Beijing Urban Construction Investment, pursuant to which Beijing Urban Construction Investment agreed to transfer its 100% equity interests in Beijing Chang Sheng to Kangda Group through tendering and bidding at China Beijing Equity Exchange* (北京產權交易所有限公司) with a minimum starting price of RMB180.8 million (the “Equity Transfer”);
- (c) a contract of guarantee dated 22 March 2013 entered into between Kangda Group and Beijing Urban Construction Investment pursuant to the Framework Agreement, and under the contract of guarantee, Kangda Group agreed to provide joint and several counter-guarantee to Beijing Urban Construction Investment and Beijing Urban Construction Road and Bridge Construction Group Limited* (北京城建道橋建設集團有限公司) for certain loans of Beijing Chang Sheng previously guaranteed by any of them;
- (d) an equity pledge agreement dated 22 March 2013 entered into between Kangda Group and Beijing Urban Construction Investment pursuant to the Framework Agreement, and under the equity pledge agreement, Kangda Group agreed to pledge the 100% equity interests in Beijing Chang Sheng it would own after completion of the Equity Transfer to Beijing Urban Construction Investment, conditional upon occurrence of certain events set out in the Framework Agreement;
- (e) a property right transfer agreement dated 3 May 2013 entered into between Kangda Group and Beijing Urban Construction Investment, pursuant to which Beijing Urban Construction Investment agreed to transfer its 100% equity interests in Beijing Chang Sheng to Kangda Group for a consideration of RMB180.8 million;
- (f) a supplemental agreement entered into between Gaomi Kangda, Mississippi International Water (China) Co., Ltd.* (密西西比國際水務(中國)有限公司), Beijing Shuisangtian Environmental Protection and Technology Co., Ltd.* (北京水桑田環保科技有限公司) (“Beijing Shuisangtian”), Zhang Dawei (張大偉) and Mississippi International Water Co., Ltd.* (密西西比國際水務有限公司) dated 18 March 2014, pursuant to which Gaomi Kangda agreed to transfer rights to one patent application and two registered patents to Beijing Shuisangtian at nil consideration;
- (g) patent application/patent transfer agreement entered into between Kangda Group and Beijing Shuisangtian dated 18 March 2014, pursuant to which Kangda Group agreed to transfer patent application/patent (patent application number: ZL2012 1 0043265.0) to Beijing Shuisangtian;
- (h) patent application/patent transfer agreement entered into between Kangda Group and Beijing Shuisangtian dated 18 March 2014, pursuant to which Kangda Group agreed to transfer patent application/patent (patent application number: 201220062111.1) to Beijing Shuisangtian;
- (i) patent application/patent transfer agreement entered into between Kangda Group and Beijing Shuisangtian dated 18 March 2014, pursuant to which Kangda Group agreed to transfer patent application/patent (patent application number: 201210043248.7) to Beijing Shuisangtian;
- (j) the Deed of Non-competition;
- (k) the Deed of Indemnity; and
- (l) the Hong Kong Underwriting Agreement.



2. Intellectual property rights of our Group

Trademarks

As at the Latest Practicable Date, we have registered 3 trademarks in the PRC and the following trademarks which, in the opinion of our Directors, material to our business:

No.	Trademark	Registered Owner	Place of registration	Class	Registration number	Expiry date
1		Kangda Group	PRC	40	4296495	20 March 2018
2		Kangda Group	PRC	40	10863918	13 August 2023
3	Kang Da	Kangda Group	PRC	40	10863962	6 August 2023

As at the Latest Practicable Date, we have registered 3 trademarks in countries and regions outside the PRC and the following trademarks which, in the opinion of our Directors, material to our business:

No.	Trademark	Registered Owner	Place of registration	Class	Registration number	Expiry date
1	Kang Da	Kangda Group	HK	40	302646432	21 June 2023
2		Kangda Group	HK	40	302646441	21 June 2023
3		Kangda Group	HK	40	302646450	21 June 2023

Domain Names

As at the Latest Practicable Date, we have registered the following domain name:

Registrant	Domain name	Date of registration	Expiration date
Kangda Group	Kangdaep.com	17 August 2002	17 August 2014

Patents

As at the Latest Practicable Date, we are the registered owner of the following patents which, in the opinion of our Directors, are material to our business:

Patents	Type	Patent number	Place of registration	Expiration date
改良型氧化溝城市污水處理工藝	Invention	ZL 01108880.X	PRC	21 September 2021
一種活性炭投焦布料器	Utility model	ZL 201220062112.6	PRC	24 February 2022
用於污水深度處理的活性炭抽提及反洗裝置	Utility model	ZL 201220062113.0	PRC	24 February 2022
一孔一管升流式水解酸化池及其布水系統	Utility model	ZL 201220173569.4	PRC	23 April 2022
用於污水深度處理的活性炭抽提及反洗裝置	Invention	ZL 201210043264.6	PRC	24 February 2032
用於污水深度處理的可移動式活性炭提取及投加系統	Invention	ZL 201210043249.1	PRC	24 February 2032
一種活性炭投焦布料器	Invention	ZL 201210043261.2	PRC	24 February 2032
難生物降解工業廢水的大規模工業化深度處理方法及系統	Invention	ZL 201210043262.7	PRC	24 February 2032
一種再可生循環利用粉末活性炭處理難生物降解廢水的PACT新工藝	Invention	ZL201210119762.4	PRC	23 April 2032

3. Further information about our PRC establishments

We set out below information of the branches of Kangda Group established in the PRC:

(a) *Beijing Caiyu*

- (i) term of business operation: no fixed term (established on 23 September 2004)
- (ii) scope of business: construction activities within the mandate of the controlling company; environmental protection technology development, consultation, and service; sales of environmental protection equipment, instruments, decorative materials, rubber products, pay electricity and chemical products (excluding hazardous chemicals and A class precursor chemicals); wastewater treatment.

(b) *Jilin Branch*

- (i) term of business operation: 12 years (2 July 2012 to 14 April 2024)
- (ii) scope of business: environmental engineering consultancy and related technical services; environmental protection software development; development of water supply and drainage equipment and other environmental protection products; sales of the products provided by the controlling company (excluding the prohibited projects or projects subject to approval as stipulated by laws and regulations).

We set out below information of the subsidiaries of our Group established in the PRC:

(a) *Kangda Group*

- (i) nature of the company: limited liability company (solely-owned by Taiwan, Hong Kong, and Macau legal person)
- (ii) term of business operation: 66 years (19 July 1996 to 13 May 2062)
- (iii) total amount of investment: RMB1.59 billion
- (iv) registered capital: RMB530 million
- (v) attributable interest of the company: 100%
- (vi) registered owner: Kangda Hong Kong (100%)

- (vii) scope of business: equity investment, construction and operation management of municipal and environmental infrastructure and urban water supply and drainage; design, consultancy of environmental engineering (wastewater) and related technical services; Green “three wastes” treatment projects and municipal public works construction contract (operate with relevant qualifications); development and manufacturing of environmental protection software; research and development and manufacturing of drainage processing equipment and other environmental protection products; sales of self-manufactured products and other related environmental protection products (excluding the prohibited projects or projects subject to approval as stipulated by laws and regulations).

(b) *Xuzhou Kangda*

- (i) nature of the company: limited liability company (solely-owned by legal person)
- (ii) term of business operation: 25 years (17 April 2006 to 12 March 2031)
- (iii) registered capital: RMB20 million
- (iv) attributable interest of the company: 100%
- (v) registered owner: Kangda Group (100%)
- (vi) scope of business: water investment; water operation (including water treatment); design, construction and management of water treatment projects; reclaimed water reuse and sludge composting; technology consultation, service and training; planting and sales of plants; landscape engineering; sales of environmental protection equipment, building materials and decorative materials

(c) *Gaomi Kangda*

- (i) nature of the company: limited liability company (solely-owned by legal person)
- (ii) term of business operation: 25 years (8 May 2006 to 7 May 2031)
- (iii) registered capital: RMB33 million
- (iv) attributable interest of the company: 100%
- (v) registered owner: Kangda Group (100%)

- (vi) scope of business: water investment with its own funds; water operation (including water treatment, excluding drinking water); design, construction and management of water treatment projects; reclaimed water reuse and sludge composting; sewage treatment technology consultation, service and education; planting and sales of plants; design and construction of landscape engineering; sales of environmental equipment, building materials and decorative materials (excluding hazardous chemicals and inflammables and explosives). The abovementioned business scope shall not include the projects requiring licenses according to state laws and regulations
- (d) ***Kangda Environmental***
- (i) nature of the company: one-person limited liability company
- (ii) term of business operation: 10 years (16 May 2006 to 15 May 2016)
- (iii) registered capital: RMB80 million
- (iv) attributable interest of the company: 100%
- (v) registered owner: Kangda Group (100%)
- (vi) scope of business: water investment; water operation; reclaimed water reuse and sludge composting; environmental technology consultation; planting and sales of plants; sales of environmental equipment, building materials and decorative materials (excluding the prohibited projects or projects subject to approval as stipulated by laws and regulations)
- (e) ***Suzhou Water***
- (i) nature of the company: limited liability company (solely-owned by legal person)
- (ii) term of business operation: long term (established on 12 October 2006)
- (iii) registered capital: RMB23 million
- (iv) attributable interest of the company: 100%
- (v) registered owner: Kangda Group (100%)
- (vi) scope of business: water investment, wastewater treatment, reclaimed water reuse (excluding water supply); design, construction, management, technology consultation and service of water treatment projects; sludge composting; planting and sales of plants; landscape engineering; sales of environmental protection equipment, building materials and decorative materials

(f) *Shangqiu Water*

- (i) nature of the company: limited liability company (solely-owned by legal person)
- (ii) term of business operation: 30 years (19 January 2007 to 18 January 2037)
- (iii) registered capital: RMB63 million
- (iv) attributable interest of the company: 100%
- (v) registered owner: Kangda Group (100%)
- (vi) scope of business: wastewater treatment and recycling; water project investment; design and construction of water treatment projects and landscaping projects (operate with valid licenses); sludge composting; technology consultation, service and training of wastewater treatment technology; planting and sales of plants; sales of environmental protection equipment, building materials and decorative materials (subject to the special approvals and administrative licenses if such approvals and licenses are involved according to the state laws and regulations)

(g) *Linyi Water*

- (i) nature of the company: limited liability company (solely-owned by legal person)
- (ii) term of business operation: 25 years (19 April 2007 to 18 April 2032)
- (iii) registered capital: RMB15 million
- (iv) attributable interest of the company: 100%
- (v) registered owner: Kangda Group (100%)
- (vi) scope of business: water investment; water operation (including water treatment); design, construction and management of water treatment projects; reclaimed water reuse and sludge composting; technology consultation, service and training of wastewater treatment; planting and sales of plants; landscape engineering; sales of environmental protection equipment, building materials and decorative materials (operate with valid licenses)

(h) *Guangrao Kangda*

- (i) nature of the company: limited liability company (solely-owned by legal person)
- (ii) term of business operation: 24 years (20 June 2008 to 18 June 2032)
- (iii) registered capital: RMB8.32 million
- (iv) attributable interest of the company: 100%
- (v) registered owner: Kangda Group (100%)
- (vi) scope of business: Wastewater treatment; investment, operation and management of other environmental protection projects (excluding the prohibited projects or projects subject to approval as stipulated by laws and regulations)

(i) *Linying Kangda*

- (i) nature of the company: limited liability company (solely-owned by legal person)
- (ii) term of business operation: 25 years (28 July 2008 to 27 July 2033)
- (iii) registered capital: RMB6 million
- (iv) attributable interest of the company: 100%
- (v) registered owner: Kangda Group (100%)
- (vi) scope of business: wastewater treatment, operation and management (excluding the projects subject to approval as stipulated by laws and regulations).

(j) *Harbin Kangda*

- (i) nature of the company: limited liability company invested or controlled by non-natural persons (solely-owned by legal person)
- (ii) term of business operation: 22 years (12 June 2012 to 9 December 2033)
- (iii) registered capital: RMB30 million
- (iv) attributable interest of the company: 100%
- (v) registered owner: Kangda Group (100%)
- (vi) scope of business: Investment and management of environmental projects, treatment and recycling of sewage

(k) Weifang Kangda

- (i) nature of the company: limited liability company (solely-owned by legal person)
- (ii) term of business operation: 30 years (19 February 2009 to 18 February 2039)
- (iii) registered capital: RMB94.18 million
- (iv) attributable interest of the company: 100%
- (v) registered owner: Kangda Group (100%)
- (vi) scope of business: municipal wastewater treatment (excluding such prohibited projects, restricted projects or projects subject to approval as stipulated by laws, regulations and decisions of State Council)

(l) Gaomi Sewage Treatment

- (i) nature of the company: limited liability company (solely-owned by legal person)
- (ii) term of business operation: 20 years (19 August 2009 to 18 August 2029)
- (iii) registered capital: RMB17 million
- (iv) attributable interest of the company: 100%
- (v) registered owner: Kangda Group (100%)
- (vi) scope of business: wastewater treatment; water operation (including water treatment, excluding drinking water) (excluding the projects prohibited by the state industrial policies, laws and regulations and the projects subject to pre-approvals) The projects affecting environment shall be subject to environment assessment by environmental authorities

(m) Fengxian Kangda

- (i) nature of the company: limited liability company (solely-owned by legal person)
- (ii) term of business operation: 30 years (26 August 2009 to 26 August 2039)
- (iii) registered capital: RMB20 million
- (iv) attributable interest of the company: 100%
- (v) registered owner: Kangda Group (100%)
- (vi) scope of business: wastewater treatment, collection and purification

(n) *Wendeng Kangda*

- (i) nature of the company: limited liability company (solely-owned by legal person)
- (ii) term of business operation: long term (established on 30 November 2009)
- (iii) registered capital: RMB10 million
- (iv) attributable interest of the company: 100%
- (v) registered owner: Kangda Group (100%)
- (vi) scope of business: wastewater treatment; operation and management of wastewater treatment facilities (operating with valid licenses where required)

(o) *Jining Kangda*

- (i) nature of the company: limited liability company (solely-owned by legal person)
- (ii) term of business operation: 30 years (27 September 2010 to 27 September 2040)
- (iii) registered capital: RMB25 million
- (iv) attributable interest of the company: 100%
- (v) registered owner: Kangda Group (100%)
- (vi) scope of business: wastewater treatment (operating with valid licenses or approval documents where required)

(p) *Haiyang Kangda*

- (i) nature of the company: limited liability company (solely-owned by legal person)
- (ii) term of business operation: 30 years (21 October 2010 to 21 October 2040)
- (iii) registered capital: RMB6 million
- (iv) attributable interest of the company: 100%
- (v) registered owner: Kangda Group (100%)
- (vi) scope of business: wastewater treatment (operating with valid licenses or approval)

(q) *Tianjin Kangda*

- (i) nature of the company: limited liability company (solely-owned by legal person)
- (ii) term of business operation: 30 years (8 November 2010 to 7 November 2040)
- (iii) registered capital: RMB16.5 million
- (iv) attributable interest of the company: 100%
- (v) registered owner: Kangda Group (100%)
- (vi) scope of business: wastewater treatment (operating pursuant to state regulations regarding monopolised projects, if applicable)

(r) *Chongqing Zhongya*

- (i) nature of the company: limited liability company (solely-owned by legal person)
- (ii) term of business operation: Long term (established on 9 August 2007)
- (iii) registered capital: RMB2 million
- (iv) attributable interest of the company: 100%
- (v) registered owner: Kangda Group (100%)
- (vi) scope of business: computer software development, sales and technology related consultancy; sales of computer peripherals, electronic products (excluding electronic publications and game consoles), mechanical and electrical equipment, general machinery, electrical machinery and equipment, instruments, building materials (excluding hazardous chemicals), decorative materials (excluding hazardous chemicals), plastic products, metal materials (excluding rare noble metal) and hardware (excluding such prohibited projects, restricted projects or projects subject to approval as stipulated by laws, regulations and decisions of State Council)

(s) *Gaomi Zhongya*

- (i) nature of the company: limited liability company (solely-owned by legal person)
- (ii) term of business operation: 50 years (4 July 2011 to 4 July 2061)
- (iii) registered capital: RMB2 million
- (iv) attributable interest of the company: 100%

- (v) registered owner: Chongqing Zhongya (100%)
- (vi) scope of business: water treatment agent (excluding hazardous chemicals and flammable and explosive substances) sales and technology extension services (excluding projects restricted by national industrial policies, laws and regulations, or projects subject to approval as stipulated by laws and regulations)
- (t) ***Fengcheng Kangda***
- (i) nature of the company: limited liability company (solely-owned by legal person)
- (ii) term of business operation: 20 years (8 August 2011 to 8 August 2031)
- (iii) registered capital: RMB8.5 million
- (iv) attributable interest of the company: 100%
- (v) registered owner: Kangda Group (100%)
- (vi) scope of business: wastewater treatment; water operation (including water treatment, excluding drinking water, projects to be eliminated by national industrial policies, laws and regulations, or projects subject to approval as stipulated by laws and regulations)
- (u) ***Beijing Kangda***
- (i) nature of the company: limited liability company (solely-owned by legal person)
- (ii) term of business operation: 20 years (29 September 2011 to 28 September 2031)
- (iii) registered capital: RMB100,000
- (iv) attributable interest of the company: 100%
- (v) registered owner: Kangda Group (100%)
- (vi) scope of business: environmental protection technology development and technical services
- (v) ***Rushan Kangda***
- (i) nature of the company: limited liability company (solely-owned by legal person)
- (ii) term of business operation: 30 years (12 October 2011 to 12 October 2041)
- (iii) registered capital: RMB24 million

- (iv) attributable interest of the company: 100%
- (v) registered owner: Kangda Group (100%)
- (vi) scope of business: wastewater treatment

(w) ***Weifang Binhai Kangda***

- (i) nature of the company: limited liability company (solely-owned by legal person)
- (ii) term of business operation: 30 years (16 November 2011 to 16 November 2041)
- (iii) registered capital: RMB10.5 million
- (iv) attributable interest of the company: 100%
- (v) registered owner: Kangda Group (100%)
- (vi) scope of business: wastewater treatment (excluding such prohibited projects or projects subject to approval as stipulated by laws, regulations and decisions of State Council)

(x) ***Haiyang Xingcun Kangda***

- (i) nature of the company: limited liability company (solely-owned by legal person)
- (ii) term of business operation: 30 years (14 February 2012 to 14 February 2042)
- (iii) registered capital: RMB3 million
- (iv) attributable interest of the company: 100%
- (v) registered owner: Kangda Group (100%)
- (vi) scope of business: wastewater treatment (environmental approval is valid until 12 February 2013)

(y) ***Hebi Water Treatment***

- (i) nature of the company: one-person limited liability company
- (ii) term of business operation: 30 years (15 February 2012 to 14 February 2042)
- (iii) registered capital: RMB5.5 million
- (iv) attributable interest of the company: 100%

- (v) registered owner: Kangda Group (100%)
- (vi) scope of business: wastewater treatment and recycling technology consulting services (excluding such prohibited projects or projects subject to approval as stipulated by laws, regulations and decisions of State Council)

(z) ***Shangqiu Kangda***

- (i) nature of the company: limited liability company (solely-owned by legal persons)
- (ii) term of business operation: 30 years (15 February 2012 to 14 February 2042)
- (iii) registered capital: RMB7 million
- (iv) attributable interest of the company: 100%
- (v) registered owner: Kangda Group (100%)
- (vi) scope of business: wastewater treatment (operate with approval as stipulated by the laws and regulations)

(aa) ***Pingdingshan Kangda***

- (i) nature of the company: one-person limited liability company
- (ii) term of business operation: 30 years (18 October 2012 to 17 October 2042)
- (iii) registered capital: RMB10 million
- (iv) attributable interest of the company: 100%
- (v) registered owner: Kangda Group (100%)
- (vi) scope of business: wastewater treatment

(bb) ***Shanxian Kangda***

- (i) nature of the company: limited liability company (solely-owned by legal person)
- (ii) term of business operation: 30 years (3 December 2012 to 3 December 2042)
- (iii) registered capital: RMB2 million
- (iv) attributable interest of the company: 100%
- (v) registered owner: Kangda Group (100%)
- (vi) scope of business: wastewater treatment and operation management (operate with approval documents)

(cc) *Suzhou Kangda*

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|--|---|
| (i) nature of the company: | limited liability company (wholly-owned by foreign invested enterprise) |
| (ii) term of business operation: | 25 years (4 March 2013 to 3 March 2038) |
| (iii) registered capital: | RMB36 million |
| (iv) attributable interest of the company: | 100% |
| (v) registered owner: | Kangda Group (100%) |
| (vi) scope of business: | wastewater treatment and operation management |

(dd) *Beijing Chang Sheng*

- | | |
|--|---|
| (i) nature of the company: | limited liability company (wholly-owned by foreign-invested enterprise) |
| (ii) term of business operation: | long term (established on 10 June 2008) |
| (iii) registered capital: | RMB150 million |
| (iv) attributable interest of the company: | 100% |
| (v) registered owner: | Kangda Group (100%) |
| (vi) scope of business: | environment protection technology development, sales and service; investment and management of environmental protection projects, management of engineering project |

(ee) *Fengxian Kangda III*

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|--|--|
| (i) nature of the company | limited liability company (solely-owned by legal person) |
| (ii) term of business | 20 years (18 October 2013 to 11 October 2033) |
| (iii) registered capital: | RMB3 million |
| (iv) attributable interest of the company: | 100% |
| (v) registered owner: | Kangda Group (100%) |
| (vi) scope of business | wastewater treatment, collection and deep purification |

(ff) *Huadian Kangda*

(i) nature of the company	limited liability company (wholly-owned by foreign-invested enterprise)
(ii) term of business	1 year (21 August 2013 to 21 August 2014)
(iii) registered capital:	RMB10 million
(iv) attributable interest of the company:	100%
(v) registered owner:	Kangda Group (100%)
(vi) scope of business	municipal wastewater treatment

(gg) *Jixi Chengjian Sewage*

(i) nature of the company:	limited liability company (solely-owned by legal person)
(ii) term of business:	30 years (24 September 2007 to 23 September 2037)
(iii) registered capital:	RMB 8 million
(iv) attributable interest of the company:	100%
(v) registered owner:	Beijing Chang Sheng (100%)
(vi) scope of business:	Development, construction and operation of wastewater treatment projects (operate with approval as stipulated by the laws and regulations)

(hh) *Ningguo Chengjian Sewage*

(i) nature of the company:	one-person limited liability company
(ii) term of business:	30 years (30 May 2008 to 29 May 2038)
(iii) registered capital:	RMB 20 million
(iv) attributable interest of the company:	100%
(v) registered owner:	Beijing Chang Sheng (100%)
(vi) scope of business:	Investment and development of wastewater treatment projects (operate with approval as stipulated by the laws and regulations)

(ii) *Anhui Chengjian Huashan Sewage*

(i) nature of the company:	limited liability company (solely-owned by legal persons)
(ii) term of business:	30 years (22 October 2008 to 20 October 2038)

- (iii) registered capital: RMB 8 million
- (iv) attributable interest of the company: 100%
- (v) registered owner: Beijing Chang Sheng (100%)
- (vi) scope of business: Investment, development, construction and operation of wastewater treatment projects (operate with approval as stipulated by the laws and regulations)

(jj) *Dacheng Chengjian Sewage*

- (i) nature of the company: limited liability company invested or controlled by natural persons
- (ii) term of business: 10 years (17 November 2008 to 16 November 2018)
- (iii) registered capital: RMB 9.6 million
- (iv) attributable interest of the company: 100%
- (v) registered owner: Beijing Chang Sheng (100%)
- (vi) scope of business: Wastewater treatment (operate with approval as stipulated by the laws and regulations)

(kk) *Yucheng Dongjiao Chengjian Sewage*

- (i) nature of the company: limited liability company (solely-owned by legal person)
- (ii) term of business: 30 years (3 December 2010 to 3 December 2040)
- (iii) registered capital: RMB 10 million
- (iv) attributable interest of the company: 100%
- (v) registered owner: Beijing Chang Sheng (100%)
- (vi) scope of business: Investment, construction and operation of wastewater treatment projects (operate with approval as stipulated by the laws and regulations)

(ll) *Jiyuan Yuchuan Chengjian Sewage*

- (i) nature of the company: one-person limited liability company
- (ii) term of business: 28 years (7 July 2011 to 6 July 2039)
- (iii) registered capital: RMB 30 million

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|--|----------------------------|
| (iv) attributable interest of the company: | 100% |
| (v) registered owner: | Beijing Chang Sheng (100%) |
| (vi) scope of business: | Wastewater treatment |

(mm) *Liangshan Kangda*

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|--|--|
| (i) nature of the company: | limited liability company (solely-owned by legal person) |
| (ii) term of business operation: | 30 years (21 April 2014 to 20 April 2044) |
| (iii) registered capital: | RMB1 million |
| (iv) attributable interest of the company: | 100% |
| (v) registered owner: | Kangda Group (100%) |
| (vi) scope of business: | wastewater purification treatment and recycling, project construction and operation management (operate with approval as stipulated by the laws and regulations) |

We set out below information of the joint venture companies of our Group established in the PRC:

(a) *Dongying Kangda*

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|---|--|
| (i) nature of the company: | limited liability company (joint venture with Taiwan, Hong Kong, and Macau company) |
| (ii) term of business operation: | 30 years (28 November 2012 to 25 November 2042) |
| (iii) total amount of investment: | US\$39.346 million |
| (iv) registered capital: | US\$13.1153 million |
| (v) attributable interest of the company: | 100% |
| (vi) registered owner: | 23.83% by Kangda Group and 76.17% by Kangda Hong Kong |
| (vii) scope of business: | wastewater purification treatment and recycling, project construction and operation management (operate with approval as stipulated by the laws and regulations) |

(b) *Jilin Kangda*

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|----------------------------|---------------------------|
| (i) nature of the company: | limited liability company |
|----------------------------|---------------------------|

- (ii) term of business operation: 7 years (22 September 2011 to 22 September 2018)
- (iii) registered capital: RMB5 million
- (iv) attributable interest of the company: 51%
- (v) registered owner: 51% by Kangda Group and 49% by Jilin Wastewater Treatment Company
- (vi) scope of business: wastewater treatment, recycled water sales; environmental protection investment (excluding risk investment)

(c) *Hebi Kangda*

- (i) nature of the company: other limited liability company
- (ii) term of business operation: 30 years (7 February 2012 to 7 February 2042)
- (iii) registered capital: RMB20 million
- (iv) attributable interest of the company: 60%
- (v) registered owner: 60% by Kangda Group, 30% by Hebi City Water (Group) Co., Ltd. and 10% by Hebi Baoshan Assets Management Co., Ltd.
- (vi) scope of business: tap-water production technology consulting services (excluding the prohibited projects or projects subject to approval as stipulated by laws and regulations)

(d) *Nanchang Qingshanhu Sewage*

- (i) nature of the company: limited liability company (sino-foreign co-operation joint venture)
- (ii) term of business: 25 years (10 December 2002 to 9 December 2027)
- (iii) total amount of investment: RMB297.98 million
- (iv) registered capital: RMB99.33 million
- (v) attributable interest of the Company: 20%
- (vi) registered owner: 20% by Beijing Chang Sheng and 80% by Berlinwater China Holdings Limited (柏林水務中國控股有限公司)
- (vii) scope of business: Project, construction and operation of wastewater treatment (operate with approval as stipulated by the laws and regulations)

D. FURTHER INFORMATION ABOUT THE DIRECTORS**1. Directors' service contracts**

Each of our executive Directors has entered into a service contract with us for an initial fixed term of three years commencing from the Listing Date and will continue thereafter until terminated by not less than three months' notice in writing served by either party on the other, which notice shall not expire until after the fixed term.

Our non-executive Director has signed an appointment letter issued by us regarding appointing him as our non-executive Director for a fixed term of one year commencing from the Listing Date and will continue thereafter until terminated by no less than three months' notice in writing served by the non-executive Director or by immediate notice in writing served by us, which notice shall not expire until after the fixed term.

Each of our independent non-executive Directors has entered into a service contract with us for an initial fixed term of one year commencing from 1 November 2013 and will continue thereafter until terminated by not less than one month's notice in writing served by either party on the other, which notice shall not expire until after the fixed term.

Each of our executive Directors and independent non-executive Directors is entitled to the respective basic salary set out below. Each of the executive Directors is also entitled to a discretionary bonus, provided that the aggregate amount of the bonuses payable to all our executive Directors in respect of any financial year of our Company may not exceed 5% of audited consolidated or combined net profit of (after taxation and minority interests and payment of such bonuses but excluding extraordinary and exceptional items) in respect of that financial year. An executive Director may not vote on any resolution of our Directors regarding the increment of annual salary and the amount of the discretionary bonus payable to him.

The current approximate basic annual salaries of our Directors are as follows:

Mr. Zhao Juanxian (趙雋賢)	RMB2,094,000
Mr. Zhang Weizhong (張為眾)	RMB1,788,000
Ms. Liu Zhiwei (劉志偉)	RMB794,000
Mr. Gu Weiping (顧衛平)	RMB794,000
Mr. Wang Litong (王立彤)	RMB788,690
Mr. Zhuang Ping (莊平)	—
Mr. Tsui Yiu Wa Alec (徐耀華)	RMB286,000
Mr. Yuan Shaoli (袁紹理)	RMB286,000
Mr. Song Qianwu (宋乾武)	RMB286,000

Save as aforesaid, none of our Directors has or is proposed to have a service contract with us or any of our subsidiaries (other than contracts expiring or determinable by the employer within one year without the payment of compensation (other than statutory compensation)).

2. Directors' remuneration during the Track Record Period

For the three years ended 31 December 2011, 2012 and 2013, the aggregate of the remuneration paid and benefits in kind granted to our Directors by us and our subsidiaries was RMB774,000, RMB3,111,000 and RMB5,034,000, respectively.

Save as disclosed in this prospectus, no other emoluments have been paid or are payable, in respect of the three years ended 31 December 2011, 2012 and 2013 by us to our Directors.

Under the arrangements currently in force, we estimate that the aggregate remuneration payable to, and benefits in kind receivable by, our Directors (excluding discretionary bonus) for the year ended 31 December 2014 will be approximately RMB7,408,690.

E. DISCLOSURE OF INTERESTS

1. Disclosure of interests

(a) *Interests and short positions of our Directors in our share capital and our associated corporations following the Capitalisation Issue and the Global Offering*

Immediately following completion of the Capitalisation Issue and the Global Offering and taking no account of any Shares which may be allotted and issued pursuant to the Share Option Scheme or the exercise of the Over-allotment Option, the interests or short positions of the Directors and the chief executive in our Shares, underlying Shares and debentures of our associated corporations, within the meaning of Part XV of the SFO which will have to be notified to our Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he is taken or deemed to have under such provisions of the SFO) or which will be required, pursuant to section 352 of the SFO, to be recorded in the register referred to therein or which will be required to be notified to us and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies contained in the Listing Rules, will be as follows:

Interests and short positions in the shares, underlying shares and debentures and associated corporations:

Long positions in our Company

<u>Name of Director</u>	<u>Capacity/Nature of interest</u>	<u>Number of Shares</u>	<u>Approximate percentage of interest in our Company</u>
Mr. Zhao Juanxian ⁽³⁾	Person acting in concert	932,890,805 ⁽¹⁾ or 1,094,922,004 ⁽²⁾	46.6% ⁽¹⁾ or 54.7% ⁽²⁾

Notes:

(1) Assuming the Exchangeable Bond are exchanged based on the low end of the Offer Price range.

- (2) Assuming the Exchangeable Bond are exchanged based on the high end of the Offer Price range.
Under the SFO, Kangda Holdings is wholly-owned and controlled by Mr. Zhao Sizhen and Mr. Zhao Sizhen is therefore deemed to be interested in the Shares held by Kangda Holdings.
- (3) By virtue of Mr. Zhao Juanxian acting in concert with Mr. Zhao Sizhen, under the SFO, Mr. Zhao Juanxian is deemed to be interested in Mr. Zhao Sizhen's interests in our Company.

(b) *Interests and short positions discloseable under Divisions 2 and 3 of Part XV of the SFO*

Immediately following completion of the Capitalisation Issue and the Global Offering and taking into no account of any shares which may be allotted and issued pursuant to the Share Option Scheme or the exercise of the Over-allotment Option, in addition to the interests disclosed under paragraph (a) above, so far as the Directors are aware, the following persons are expected to have interests or short positions in our shares or underlying shares which are required to be disclosed to the provisions of Divisions 2 and 3 of Part XV of the SFO or, are expected to be, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of our Group.

Interests in our shares and underlying shares:

Long positions in our Company

Name	Capacity/Nature of interest	Number of Shares	Approximate percentage of shareholding in our Company immediately after the Global Offering and the Capitalisation Issue ⁽¹⁾
Mr. Zhao Sizhen	Interest in controlled corporation	932,890,805 ⁽¹⁾ or 1,094,922,004 ⁽²⁾	46.6% ⁽¹⁾ or 54.7% ⁽²⁾
Mr. Zhao Juanxian ⁽³⁾	Person acting in concert	932,890,805 ⁽¹⁾ or 1,094,922,004 ⁽²⁾	46.6% ⁽¹⁾ or 54.7% ⁽²⁾
Kangda Holdings ⁽⁴⁾	Beneficial owner	932,890,805 ⁽¹⁾ or 1,094,922,004 ⁽²⁾	46.6% ⁽¹⁾ or 54.7% ⁽²⁾
Investor ⁽⁵⁾	Beneficial owner	567,109,195 ⁽¹⁾ or 405,077,996 ⁽²⁾	28.4% ⁽¹⁾ or 20.3% ⁽²⁾
The Baring Asia Private Equity Fund V, L.P. ⁽⁵⁾	Interest in controlled corporation	567,109,195 ⁽¹⁾ or 405,077,996 ⁽²⁾	28.4% ⁽¹⁾ or 20.3% ⁽²⁾
Baring Private Equity Asia GP V, L.P. ⁽⁵⁾	Interest in controlled corporation	567,109,195 ⁽¹⁾ or 405,077,996 ⁽²⁾	28.4% ⁽¹⁾ or 20.3% ⁽²⁾
Baring Private Equity Asia GP V Limited ⁽⁵⁾	Interest in controlled corporation	567,109,195 ⁽¹⁾ or 405,077,996 ⁽²⁾	28.4% ⁽¹⁾ or 20.3% ⁽²⁾
Jean Eric Salata ⁽⁵⁾	Interest in controlled corporation	567,109,195 ⁽¹⁾ or 405,077,996 ⁽²⁾	28.4% ⁽¹⁾ or 20.3% ⁽²⁾

Notes:

- (1) Assuming the Exchangeable Bond are exchanged based on the low end of the Offer Price range.
- (2) Assuming the Exchangeable Bond are exchanged based on the high end of the Offer Price range.
- (3) By virtue of Mr. Zhao Juanxian acting in concert with Mr. Zhao Sizhen, under the SFO, Mr. Zhao Juanxian is deemed to be interested in Mr. Zhao Sizhen's interests in our Company.
- (4) Kangda Holdings is wholly-owned and controlled by Mr. Zhao Sizhen and Mr. Zhao Sizhen is therefore deemed to be interested in the Shares held by Kangda Holdings.
- (5) The Investor is held as to approximately 99.35% by The Baring Asia Private Equity Fund V, L.P., an Independent Third Party. Baring Private Equity Asia GP V, L.P., an Independent Third Party, is the general partner of The Baring Asia Private Equity Fund V, L.P. Jean Eric Salata is the sole shareholder of Baring Private Equity Asia GP V Limited, the general partner of Baring Private Equity Asia GP V, L.P. Each of The Baring Asia Private Equity Fund V, L.P., Baring Private Equity Asia GP V, L.P., Baring Private Equity Asia GP V Limited and Jean Eric Salata is an Independent Third Party, and is deemed to be interested in the relevant Shares held by the Investor immediately following the completion of Capitalisation Issue, the Global Offering and the exchange of the Exchangeable Bond by the Investor in full (assuming the Over-allotment Option and any options granted under the Share Option Scheme are not exercised). Jean Eric Salata disclaims beneficial ownership of such Shares, other than to the extent of his economic interest in such entities.

2. Disclaimers

Save as disclosed in this prospectus:

- (a) our Directors are not aware of any person (not being our Director or chief executive) who will, immediately after completion of the Capitalisation Issue and the Global Offering (without taking into account Shares which may be issued upon the exercise of the Over-allotment Option or the Shares which may be issued upon the exercise of options granted under our Share Option Scheme and the Capitalisation Issue), have an interest or a short position in Shares or underlying Shares which would fall to be disclosed to us under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who will, directly or indirectly, be interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at our general meetings;
- (b) none of our Directors has any interest or short position in any of the Shares, underlying Shares or debentures or any shares, underlying shares or debentures of any associated corporation within the meaning of Part XV of the SFO, which will have to be notified to us and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he is 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 to be notified to us and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies, in each case once the Shares are listed;
- (c) none of our Directors nor any of the parties listed in the section headed "F. Other Information — 10. Consents of experts" in this Appendix is interested in the promotion of our Company, or in any assets which have been, within the two years immediately preceding the date of this prospectus, acquired or disposed of by or leased to our Company or any of our subsidiaries, or are proposed to be acquired or disposed of by or leased to our Company or any of our subsidiaries;

- (d) none of our Directors nor any of the parties listed in the section headed “F. Other Information — 10. Consents of experts” in this Appendix is materially interested in any contract or arrangement subsisting at the date of this prospectus which is significant in relation to our business;
- (e) save in connection with the Underwriting Agreements, none of the parties listed in the section headed “F. Other Information — 10. Consents of experts” in this Appendix:
 - (i) is interested legally or beneficially in any securities of our Company or any of our subsidiaries; or
 - (ii) has any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities of our Company or any of our subsidiaries;
- (f) none of our Directors or their associates (as defined in the Listing Rules) or the existing Shareholders (who, to the knowledge of our Directors, owns more than 5% of our issued share capital) has any interest in any of the five largest customers or the five largest suppliers of our Group.

F. OTHER INFORMATION

1. Estate duty, tax and other indemnity

Our Controlling Shareholders have entered into the Deed of Indemnity with our Company (for ourselves and as trustee for each of our subsidiaries) on 14 June 2014 to provide indemnities in respect of, among other matters, certain liability for Hong Kong estate duty which might be incurred by any member of our Group by reason of certain transfers of property (by virtue of section 35 and/or section 43 of the Estate Duty Ordinance, Chapter 111 of the Laws of Hong Kong) to any member of our Group on or before the date on which the conditions of the Global Offering are fulfilled or waived in accordance with the terms set forth in the sub-section headed “Structure of the Global Offering — Conditions of the Global Offering” in this prospectus (the “Relevant Date”).

Pursuant to the Deed of Indemnity, our Controlling Shareholders have also given joint and several indemnities to our Company for ourselves and as trustee for our subsidiaries in connection with, among other things, (i) any taxation which might be payable by any member of our Group resulting from or by reference to any income, profits or gains earned, accrued or received on or before the Relevant Date or any event or transaction on or before such date whether alone or in conjunction with any circumstances whenever occurring and whether or not such taxation is chargeable against or attributable to any other person, firm or company; and (ii) any potential claims, costs, expenses and losses incurred due to the non-compliance incidents which occurred on or before the date on which the Global Offering becomes unconditional.

The Deed of Indemnity does not apply:

- a) to the extent that provision or allowance has been made for such liability, taxation or claim in the consolidated audited accounts (the “Accounts”) of our Group for the three years ended 31 December 2013; or
- b) to any liability or claim falling on any of the members of our Group in respect of their current accounting periods or any accounting period commencing on or after December 31, 2013 unless such liability or claim would not have arisen but for any act or omission of, or transaction voluntarily effected by, any of the members of our Group (whether alone or in conjunction with some other act, omission or transaction, whenever occurring) without the prior written consent or agreement of our Controlling Shareholders other than any such act, omission or transaction:
 - (1) carried out or effected in the ordinary course of business or in the ordinary course of acquiring and disposing of capital assets after 31 December 2013; or
 - (2) carried out, made or entered into pursuant to a legally binding commitment created on or before 31 December 2013; or
 - (3) consisting of any of the members of our Group ceasing, or being deemed to cease, to be a member of any group of companies or being associated with any other company for the purposes of any matter of taxation; or
- c) to the extent that any claim arises or is incurred as a result of any retrospective change in law or practice coming into force after the Relevant Date or to the extent such claim arises or is increased by an increase in the rates of taxation after the Relevant Date with retrospective effect; or
- d) to the extent of any provision or reserve made for taxation in the Accounts which is finally established to be an over-provision or an excessive reserve provided that the amount of any such provision or reserve so applied to reduce our Controlling Shareholders’ liability in respect of such taxation shall not be available in respect of any such liability arising thereafter.

2. Litigation

As at the Latest Practicable Date, neither we nor any of our subsidiaries were/was engaged in any litigation, arbitration or claim of material importance, and no litigation, arbitration or claim of material importance is known to our Directors to be pending or threatened by or against us, that would have a material adverse effect on its results of operations or financial condition.

3. Preliminary expenses

Our estimated preliminary expenses are approximately US\$6,500 and have been paid by us.

4. Promoter

There are no promoters of our Company.

5. Joint Sponsors

The Joint Sponsors made an application on our behalf to the Listing Committee of the Stock Exchange for listing of, and permission to deal in, the Shares in issue as mentioned herein, the Shares to be issued pursuant to the Capitalisation Issue and any Shares falling to be issued pursuant to the exercise of the Over-allotment Option, and the Shares that may be issued upon the exercise of options that may be granted under the Share Option Scheme. All necessary arrangements have been made to enable such Shares to be admitted into CCASS. Each of the Joint Sponsors is independent from our Company pursuant to Rule 3A.07 of the Listing Rules.

Our Company has entered into an engagement agreement with each of the Joint Sponsors, pursuant to which our Company agreed to pay the Joint Sponsors a fee of HK\$6 million to act as joint sponsors to the Company in the Global Offering.

6. No material adverse change

Our Directors confirm that there has been no material adverse change in their financial or trading position or prospects since 31 December 2013 (being the date to which our latest audited combined financial statements were made up).

7. Binding effect

This prospectus shall have the effect, if an application is made in pursuance hereof, of rendering all persons concerned bound by all the provisions (other than the penal provisions) of sections 44A and 44B of the Cap. 32 Companies (WUMP) Ordinance so far as applicable.

8. Miscellaneous

(1) Save as disclosed in this prospectus:

- (a) within the two years immediately preceding the date of this prospectus, no share or loan capital of our Company or any of our subsidiaries has been issued or agreed to be issued fully or partly paid either for cash or for a consideration other than cash;
- (b) 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;
- (c) neither our Company nor any of our subsidiaries have issued or agreed to issue any founder shares, management shares or deferred shares;
- (d) within the two years immediately preceding the date of this prospectus, no commissions, discounts, brokerage or other special terms have been granted in connection with the issue or sale of any shares or loan capital of any member of our Group;

- (e) within the two years preceding the date of this prospectus, no commission has been paid or payable (except commissions to the Underwriters) for subscription, agreeing to subscribe, procuring subscription or agreeing to procure subscription of any Shares in our Company;
- (f) none of the equity and debt securities of our Company is listed or dealt with in any other stock exchange nor is any listing or permission to deal being or proposed to be sought; and
- (g) we have no outstanding convertible debt securities.
- (2) There has not been any interruption in the business of our Group which may have or have had a significant effect on the financial position of our Group in the twelve (12) months immediately preceding the date of this prospectus.

9. Qualifications of experts

The following are the qualifications of the experts who have given opinion or advice which are contained in this prospectus:

Name	Qualification
Macquarie Capital Securities 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
ICBC International Capital Limited	Licensed to conduct Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO
Ernst & Young	Certified public accountants
CBRE Limited	Independent third party valuer
Conyers Dill & Pearman (Cayman) Limited	Cayman Islands attorneys-at-law
Commerce & Finance Law Offices	PRC legal adviser to our Company
Jingtian & Gongcheng	PRC legal adviser to the Joint Sponsors and Underwriters
Frost & Sullivan (Beijing) Inc., Shanghai Branch Co.	Independent industry consultant

10. Consents of experts

Each of Macquarie Capital Securities Limited, ICBC International Capital Limited, Ernst & Young, CBRE Limited, Conyers Dill & Pearman (Cayman) Limited, Commerce & Finance Law Offices, Jingtian & Gongcheng and Frost & Sullivan (Beijing) Inc., Shanghai Branch Co. has given and has not withdrawn their respective consent to the issue of this prospectus with the inclusion of its report and/or letter and/or opinion and/or legal opinion (as the case may be) and references to its name included in the form and context in which it respectively appears.

None of the experts named above has any shareholding interests in our Company or any of our subsidiaries or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in our Company or any of our subsidiaries.

11. Bilingual prospectus

The English language and the Chinese language versions of this prospectus are being published separately, in reliance upon the exemption provided by section 4 of the Companies (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice (Chapter 32L of the Laws of Hong Kong).

G. SHARE OPTION SCHEME

The following is a summary of principal terms of the Share Option Scheme conditionally approved by a resolution of our Shareholders passed on 14 June 2014 and adopted by a resolution of the Board on 14 June 2014 (the “Adoption Date”). The terms of the Share Option Scheme are in compliance with the provisions of Chapter 17 of the Listing Rules.

1. Purpose

The purpose of the Share Option Scheme is to give the Eligible Persons (as defined in the following paragraph) an opportunity to have a personal stake in our Company and help motivate them to optimise their future performance and efficiency to our Group and/or to reward them for their past contributions, to attract and retain or otherwise maintain on-going relationships with such Eligible Persons who are significant to and/or whose contributions are or will be beneficial to the performance, growth or success of our Group, and additionally in the case of Executives (as defined below), to enable our Group to attract and retain individuals with experience and ability and/or to reward them for their past contributions.

2. Who may join

The Board may, at its absolute discretion, offer options (“**Options**”) to subscribe for such number of Shares in accordance with the terms set out in the Share Option Scheme to:-

- (a) any executive director of, manager of, or other employee holding an executive, managerial, supervisory or similar position in any member of our Group (“**Executive**”), any full-time or part-time employee, or a person for the time being seconded to work full-time or part-time for any member of our Group (“**Employee**”);

- (b) a director or proposed director (including an independent non-executive director) of any member of our Group;
- (c) a direct or indirect shareholder of any member of our Group;
- (d) a supplier of goods or services to any member of our Group;
- (e) a customer, consultant, business or joint venture partner, franchisee, contractor, agent or representative of any member of our Group;
- (f) a person or entity that provides design, research, development or other support or any advisory, consultancy, professional or other services to any member of our Group; and
- (g) an associate of any of the persons referred to in paragraphs (a) to (f) above (the person referred above are the “**Eligible Persons**”).

3. Maximum number of Shares

The maximum number of Shares which may be issued upon exercise of all options to be granted under the Scheme and any other schemes of our Group shall not in aggregate exceed 10% of the Shares in issue as at the Listing Date (such 10% limit representing 50,000,000 excluding Shares which may fall to be issued upon the exercise of the Over-allotment Option granted by our Company (the “**Scheme Mandate Limit**”) provided that:

- (a) our Company may at any time as our Board may think fit seek approval from our Shareholders to refresh the Scheme Mandate Limit, save that the maximum number of Shares which may be issued upon exercise of all options to be granted under the Share Option Scheme and any other schemes of our Company shall not exceed 10% of the Shares in issue as at the date of approval by our Shareholders in general meeting where the Scheme Mandate Limit is refreshed. Options previously granted under the Share Option Scheme and any other schemes of our Company (including those outstanding, cancelled, lapsed or exercised in accordance with the terms of the Share Option Scheme or any other schemes of our Company) shall not be counted for the purpose of calculating the Scheme Mandate Limit as refreshed. Our Company shall send to our Shareholders a circular containing the details and information required under the Listing Rules;
- (b) Our Company may seek separate approval from our Shareholders in general meeting for granting Options beyond the Scheme Mandate Limit, provided that the Options in excess of the Scheme Mandate Limit are granted only to the Eligible Person specified by our Company before such approval is obtained. Our Company should issue a circular to our Shareholders containing the details and information required under the Listing Rules.
- (c) 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 schemes of our Group shall not exceed 30% of our Company’s issued share capital from time to time. No Options may be granted under the Share Option Scheme and any other share option scheme of our Company if this will result in such limit being exceeded.

4. Maximum entitlement of each participant

No Option may be granted to any one person such that the total number of Shares issued and to be issued upon exercise of Options granted and to be granted to that person in any 12-month period exceeds 1% of our Company's issued share capital from time to time. Where any further grant of Options to such an Eligible Person would result in the Shares issued and to be issued upon exercise of all Options granted and to be granted to such Eligible Person (including exercised, cancelled and outstanding Options) in the 12-month period up to and including the date of such further grant representing in aggregate over 1% of the Shares in issue, such further grant shall be separately approved by our Shareholders in general meeting with such Eligible Person and his or her associates abstaining from voting. Our Company shall send a circular to our Shareholders disclosing the identity of the Eligible Person, the number and terms of the Options to be granted (and Options previously granted) to such Eligible Person, and containing the details and information required under the Listing Rules. The number and terms (including the subscription price) of the Options to be granted to such Eligible Person must be fixed before the approval of our Shareholders and the date of the Board meeting proposing such grant shall be taken as the offer date for the purpose of calculating the subscription price of those Options.

5. Offer and grant of Options

Subject to the terms of the Share Option Scheme, the Board shall be entitled at any time within 10 years from the Adoption Date to offer the grant of an Option to any Eligible Person as the Board may in its absolute discretion select to subscribe at the subscription price for such number of Shares as the Board may (subject to the terms of the Share Option Scheme) determine (provided the same shall be a board lot for dealing in the Shares on the Stock Exchange or an integral multiple thereof).

6. Granting Options to connected persons

Subject to the terms in the Share Option Scheme, only insofar as and for so long as the Listing Rules require, where any offer of an Option is proposed to be made to a director, chief executive or a substantial shareholder (as defined in the Listing Rules) of our Company or any of their respective associates, such offer must first be approved by the independent non-executive Directors of our Company (excluding the independent non-executive Director who or whose associates is the grantee of an Option).

Where any grant of Options to a substantial shareholder (as defined in the Listing Rules) or an independent non-executive Director of our Company, or any of their respective associates, would result in the securities issued and to be issued upon exercise of all Options already granted and to be granted (including Options exercised, cancelled and outstanding) to such person in the 12-month period up to and including the date of such grant:

- (a) representing in aggregate over 0.1% of the relevant class of securities in issue; and

- (b) (where the securities are listed on the Stock Exchange), having an aggregate value, based on the closing price of the securities at the date of each grant, in excess of HK\$5.0 million,

such further grant of Options must be approved by our Shareholders (voting by way of a poll). Our Company shall send a circular to our Shareholders containing the information required under the Listing Rules. All connected persons (as defined in the Listing Rules) of our Company must abstain from voting in favour at such general meeting.

Approval from our Shareholders is required for any change in the terms of Options granted to a participant who is a substantial shareholder or an independent non-executive Director of our Company, or any of their respective associates.

7. Restriction on the time of grant of Options

The Board shall not grant any Option under the Share Option Scheme after a price sensitive development has occurred or a price sensitive matter has been the subject of a decision until such price sensitive information has been announced pursuant to the requirements of the Listing Rules. In particular, no Option shall be granted during the period commencing one month immediately preceding the earlier of the date of the Board meeting (as such date is first notified to the Stock Exchange in accordance with the Listing Rules) for the approval of our Company's results for any year, half-year, quarterly or any other interim period (whether or not required under the Listing Rules) and the deadline for our Company to publish an announcement of its results for any year, half-year, quarterly or any other interim period (whether or not required under the Listing Rules), and ending on the date of the results announcements.

8. Minimum holding period, vesting and performance target

Subject to the provisions of the Listing Rules, the Board may in its absolute discretion when offering the grant of an Option impose any conditions, restrictions or limitations in relation thereto in addition to those set forth in the Share Option Scheme as the Board may think fit (to be stated in the letter containing the offer of the grant of the Option) including (without prejudice to the generality of the foregoing) qualifying and/or continuing eligibility criteria, conditions, restrictions or limitations relating to the achievement of performance, operating or financial targets by our Company and/or the grantee, the satisfactory performance or maintenance by the grantee of certain conditions or obligations or the time or period before the right to exercise the Option in respect of any of the Shares shall vest provided that such terms or conditions shall not be inconsistent with any other terms or conditions of the Share Option Scheme. For the avoidance of doubt, subject to such terms and conditions as the Board may determine as aforesaid (including such terms and conditions in relation to their vesting, exercise or otherwise) there is no minimum period for which an Option must be held before it can be exercised and no performance target which need to be achieved by the grantee before the Option can be exercised.

9. Amount payable for Options and offer period

An offer of the grant of an Option shall remain open for acceptance by the Eligible Person concerned for a period of 28 days from the offer date provided that no such grant of an Option may be accepted after the expiry of the effective period of the Share Option Scheme. An Option shall be deemed to have been granted and accepted by the Eligible Person and to have taken effect when the duplicate offer letter comprising acceptance of the offer of the Option duly signed by the grantee together with a remittance in favour of our Company of HK\$1.00 by way of consideration for the grant thereof is received by our Company on or before the date upon which an offer of an Option must be accepted by the relevant Eligible Person, being a date no later than 28 days after the offer date (the “**Acceptance Date**”). Such remittance shall in no circumstances be refundable.

Any offer of the grant of an Option may be accepted in respect of less than the number of Shares in respect of which it is offered provided that it is accepted in respect of board lots for dealing in Shares on the Stock Exchange or an integral multiple thereof and such number is clearly stated in the duplicate offer letter comprising acceptance of the offer of the Option. To the extent that the offer of the grant of an Option is not accepted by the Acceptance Date, it will be deemed to have been irrevocably declined.

10. Subscription price

The subscription price in respect of any particular Option shall be such price as the Board may in its absolute discretion determine at the time of grant of the relevant Option (and shall be stated in the letter containing the offer of the grant of the Option) but the subscription price shall not be less than whichever is the highest of:

- (a) the nominal value of a Share;
- (b) the closing price of a Share as stated in the Stock Exchange’s daily quotations sheet on the offer date; and
- (c) the average closing price of a Share as stated in the Stock Exchange’s daily quotations sheets for the 5 Business Days (as defined in the Listing Rules) immediately preceding the offer date.

11. Exercise of Option

- (a) An Option shall be exercised in whole or in part (but if in part only, in respect of a board lot or any integral multiple thereof) within the Option period in the manner as set out in this Share Option Scheme by the grantee (or his or her legal personal representative(s)) by giving notice in writing to our Company stating that the Option is thereby exercised and specifying 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 aggregate subscription price for the Shares in respect of which the notice is given. Within 30 days after receipt of the notice and, where appropriate, receipt of a certificate from our auditors pursuant to the Share Option Scheme, our Company shall accordingly allot and issue the relevant number of

Shares to the grantee (or his or her legal personal representative(s)) credited as fully paid with effect from (but excluding) the relevant exercise date and issue to the grantee (or his or her legal personal representative(s)) share certificate(s) in respect of the Shares so allotted.

- (b) The exercise of any Option may be subject to a vesting schedule to be determined by the Board in its absolute discretion, which shall be specified in the offer letter.
- (c) The exercise of any Option shall be subject to the members of our Company in general meeting approving any necessary increase in the authorised share capital of our Company.
- (d) Subject as hereinafter provided:
 - (i) in the event that the grantee dies or becomes permanently disabled before exercising an Option (or exercising it in full) and none of the events for termination of employment or engagement pursuant to the terms of the Share Option Scheme exists with respect to such grantee, he or she (or his or her legal representative(s)) may exercise the Option up to the grantee's entitlement immediately prior to the death or permanent disability (to the extent not already exercised) within a period of 12 months following his or her death or permanent disability or such longer period as the Board may determine;
 - (ii) in the event that the grantee ceases to be an Executive for any reason (including his or her employing company ceasing to be a member of our Group) other than his or her death, permanent disability, retirement pursuant to such retirement scheme applicable to our Group at the relevant time or the transfer of his or her employment to an affiliate company or the termination of his or her employment with the relevant member of our Group by resignation or termination on the ground of misconduct, the Option (to the extent not already exercised) shall lapse on the date of cessation of such employment and not be exercisable unless the Board otherwise determines in which event the Option (or such remaining part thereof) shall be exercisable within such period as the Board may in its absolute discretion determine following the date of such cessation;
 - (iii) if a general offer is made to all holders of Shares and such offer becomes or is declared unconditional (in the case of a takeover offer) or is approved by the requisite majorities at the relevant meetings of our Shareholders (in the case of a scheme of arrangement), the grantee shall be entitled to exercise the Option (to the extent not already exercised) at any time (in the case of a takeover offer) within one month after the date on which the offer becomes or is declared unconditional or (in the case of a scheme of arrangement) prior to such time and date as shall be notified by our Company;

- (iv) if a compromise or arrangement between our Company and its members or creditors is proposed for the purpose of or in connection with a scheme for the reconstruction of our Company or its amalgamation with any other company, our Company shall give notice thereof to the grantees who have Options unexercised at the same time as it dispatches notices to all members or creditors of our Company summoning the meeting to consider such a compromise or arrangement and thereupon each grantee (or his or her legal representatives or receiver) may until the expiry of the earlier of:
- (1) the Option period (in respect of any particular Option, the period commencing immediately after the business day (as defined in the Listing Rules) on which the Option is deemed to be granted and accepted in accordance with the Share Option Scheme and expiring on a date to be determined and notified by our Directors to each grantee provided that such period shall not exceed the period of 10 years from the date of the grant of a particular Option but subject to the provisions for early termination thereof contained in the Share Option Scheme);
 - (2) the period of two months from the date of such notice; or
 - (3) the date on which such compromise or arrangement is sanctioned by the court, exercise in whole or in part his or her Option.
- (v) 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 on the same date as or soon after it dispatches such notice to each member of our Company give notice thereof to all grantees and thereupon, each grantee (or his or her legal personal representative(s)) shall be entitled to exercise all or any of his or her options at any time not later than two Business Days (as defined in the Listing Rules) prior to the proposed general meeting of our Company 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 (as defined in the Listing Rules) immediately prior to the date of the proposed general meeting referred to above, allot the relevant Shares to the grantee credited as fully paid.

12. Life of Share Option Scheme

Subject to the terms of this Share Option Scheme, the Scheme shall be valid and effective for a period of 10 years from the date on which it becomes unconditional, after which no further options will be granted or offered but the provisions of the Share Option Scheme shall remain in force and effect to the extent necessary to give effect to the exercise of any subsisting Options granted prior to the expiry of the 10-year period or otherwise as may be required in accordance with the provisions of the Share Option Scheme.

13. Lapse of Share Option Scheme

An Option shall lapse automatically and not be exercisable, to the extent not already exercised, on the earliest of:

- (a) the expiry of the Option period;
- (b) the expiry of any of the period referred to paragraphs related to exercise of the Option;
- (c) subject to the terms of the period mentioned in the paragraph headed “G. Share Option Scheme — 11. Exercise of Option” in this section, the date of the commencement of the winding-up of our Company;
- (d) there is an unsatisfied judgment, order or award outstanding against the grantee or the Board has reason to believe that the grantee is unable to pay or to have no reasonable prospect of being able to pay his/her/its debts;
- (e) there are circumstances which entitle any person to take any action, appoint any person, commence proceedings or obtain any order of the type mentioned in this Share Option Scheme with respect to the exercise of the Option;
- (f) a bankruptcy order has been made against any director or shareholder of the grantee (being a corporation) in any jurisdiction.

No compensation shall be payable upon the lapse of any Option, provided that the Board shall be entitled in its discretion to pay such compensation to the grantee in such manner as it may consider appropriate in any particular case.

14. Adjustment

In the event of any alteration to the capital structure of our Company while any Option remains exercisable, whether by way of capitalisation of profits or reserves, open offer right issue, consolidations, reclassification, reconstruction, sub-division or reduction of the share capital of our Company, the Board may, if it considers the same to be appropriate, direct that adjustments be made to:

- (a) the maximum number of Shares subject to the Share Option Scheme; and/or
- (b) the aggregate number of Shares subject to the Option so far as unexercised; and/or
- (c) the subscription price of each outstanding Option.

Where the Board determines that such adjustments are appropriate (other than an adjustment arising from a capitalisation issue), the auditors appointed by our Company shall certify in writing to the Board that any such adjustments are in their opinion fair and reasonable, provided that:

- (a) any such adjustments shall be made on the basis that the aggregate subscription price payable by the grantee on the full exercise of any Option shall remain as nearly as practicable same as (but shall not be greater than) as it was before such event;
- (b) no such adjustments shall be made the effect of which would be to enable a Share to be issued at less than its nominal value;
- (c) any such adjustments shall be made to in accordance with the provisions as stipulated under Chapter 17 of the Listing Rules and supplementary guidance on the interpretation of the Listing Rules issued by the Stock Exchange from time to time; and
- (d) the issue of securities as consideration in a transaction shall not be regarded as a circumstance requiring any such adjustments.

15. Cancellation of Options not exercised

The Board shall be entitled for the following causes to cancel any Option in whole or in part by giving notice in writing to the grantee stating that such Option is thereby cancelled with effect from the date specified in such notice (the “**Cancellation Date**”):

- (a) the grantee commits or permits or attempts to commit or permit a breach of restriction on transferability of Option or any terms or conditions attached to the grant of the Option;
- (b) the grantee makes a written request to the Board for the Option to be cancelled; or
- (c) if the grantee has, in the opinion of the Board, conducted himself in any manner whatsoever to the detriment of or prejudicial to the interests of our Company or its subsidiary.

The Option shall be deemed to have been cancelled with effect from the Cancellation Date in respect of any part of the Option which has not been exercised as at the Cancellation Date. No compensation shall be payable upon any such cancellation, provided that the Board shall be entitled in its discretion to pay such compensation to the grantee in such manner as it may consider appropriate in any particular case.

16. Ranking of Shares

The Shares to be allotted upon the exercise of an Option will be subject to all the provisions of the Articles of Association and the laws of the Cayman Islands from time to time and shall rank *pari passu* in all respects with the then existing fully paid Shares in issue on the allotment date or, if that date falls on a day when the register of members of our Company is closed, the first date of the re-opening of the register of members, and accordingly will entitle the holders to participate in all dividends or other distributions paid or made on or after the allotment date or, if that date falls on a

day when the register of members of our Company is closed, the first day of the re-opening of the register of members, other than any dividend or other distribution previously declared or recommended or resolved to be paid or made if the record date therefore shall be before the allotment date.

Share issued upon the exercise of an Option shall not carry rights until the registration of the grantee (or any other person) as the holder thereof.

17. Termination

Our Company may by resolution in general meeting at any time terminate the operation of the Share Option Scheme. Upon termination of the Share Option Scheme as aforesaid, no further Options shall be offered but the provisions of the Share Option Scheme shall remain in force and effect in all other respects. All Options granted prior to such termination and not then exercised shall continue to be valid and exercisable subject to and in accordance with the Share Option Scheme.

18. Transferability

The Option shall be personal to the grantee and shall not be assignable and no grantee shall in any way sell, transfer, charge, mortgage, encumber or create any interest (legal or beneficial) in favour of any third party over or in relation to any Option or attempt to do so (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 Option or part thereof granted to such grantee.

19. Alteration of Share Option Scheme

The Share Option Scheme may be altered in any respect by a resolution of the Board except that the following shall not be carried out except with the prior sanction of an ordinary resolution of the our Shareholders in general meeting:

- (a) any material alteration to its terms and conditions or any change to the terms of Options granted (except where the alterations take effect under the existing terms of the Share Option Scheme);
- (b) any alteration to the provisions of the Share Option Scheme in relation to the matters set out in Rule 17.03 of the Listing Rules to the advantage of grantee;
- (c) any alteration to the authority of the Board or any person or committee delegated by the Board pursuant to relevant provisions thereof to administer the day-to-day running of the Scheme; and
- (d) any alteration to the aforesaid termination provisions.

provided always that the amended terms of the Share Option Scheme shall comply with the applicable requirements of the Listing Rules.

20. Conditions of the Share Option Scheme

The Share Option Scheme shall come into effect on the date on which the following conditions are fulfilled:

- (a) subject to (b) and (c) below, the approval and adoption of the Share Option Scheme by all our Shareholders;
- (b) the approval of the Stock Exchange for the listing of and permission to deal in, a maximum of 50,000,000 Shares to be allotted and issued pursuant to the exercise of the Share Option Scheme in accordance with the terms and conditions of the Share Option Scheme;
- (c) the commencement of dealing of the Shares on the Main Board of the Stock Exchange; and
- (d) the obligations of the underwriters under the Underwriting Agreement(s), if any, becoming unconditional and not being terminated in accordance with the terms thereof or otherwise;

If any of the above conditions are not satisfied on or before the date which is two calendar months after the date of this prospectus (or such later date as the Board may decide), the Share Option Scheme shall forthwith terminate and no person shall be entitled to any rights or benefits or be under any obligations under or in respect of the Share Option Scheme. Application has been made to the Stock Exchange for the Listing of 50,000,000 Shares which may be issued pursuant to the exercise of Options under the Share Option Scheme.

DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES

The documents attached to the copy of this prospectus delivered to the Registrar of Companies in Hong Kong for registration were copies of the **WHITE**, **YELLOW** and **GREEN** Application Forms, the written consents referred to in the paragraph headed “Consents of experts” in Appendix IV and copies of the material contracts referred to in the paragraph headed “Summary of the material contracts” in Appendix IV.

DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the offices of Orrick, Herrington & Sutcliffe at 43rd Floor, Gloucester Tower, The Landmark, 15 Queen’s Road Central, Hong Kong during normal business hours from 9:00 a.m. to 5:00 p.m. up to and including the date which is 14 days from the date of this prospectus:

- (1) our Memorandum and the Articles of Association;
- (2) the Accountants’ Report prepared by Ernst & Young, the text of which is set out in Appendix I to this prospectus;
- (3) the audited financial statements as have been prepared for the companies now comprising our Group for each of the years ended 31 December, 2011, 2012 and 2013 (or for the period since their respective dates of incorporation where it is shorter);
- (4) the report received from Ernst & Young on unaudited pro forma financial information, the texts of which is set out in Appendix II to this prospectus;
- (5) the material contracts referred to in the paragraph headed “Further Information about our Business — Summary of the Material Contracts” of Appendix IV to this prospectus;
- (6) the service contracts with Directors, referred to in the paragraph headed “Further Information about the Directors — Directors’ service contracts” of Appendix IV to this prospectus;
- (7) the written consents referred to in the paragraph headed “Other Information — Consents of experts” of Appendix IV to this prospectus;
- (8) the PRC legal opinions prepared by Commerce & Finance Law Offices, our legal adviser as to the PRC law, in respect of certain aspects of our Group and our property interests;
- (9) the PRC legal opinions prepared by Jingtian & Gongcheng, the legal adviser to the Joint Sponsors and Underwriters as to the PRC law, in respect of certain aspects of the legality and validity of relevant service concession agreements entered into by and between the local government customers and us;

- (10) the valuation report issued by CBRE Limited, an Independent Third Party valuer, in respect of the construction margin of our certain wastewater treatment and water supply plants;
- (11) the letter of advice prepared by Conyers Dill & Pearman (Cayman) Limited summarising certain aspects of Cayman Islands Company law referred to in Appendix III to this prospectus;
- (12) the Companies Law; and
- (13) the rules of the Share Option Scheme.

